

## 9. Cash Budgeting

Poole Ltd is preparing to set up business on 01/07/2019 and had made the following forecast for the first six months of trading:

Sales Budget						
	July	Aug.	Sept.	Oct.	Nov.	Dec.
Sales (units)	10,500	11,500	12,000	12,500	13,000	13,500
Sales (€)	399,000	437,000	456,000	475,000	494,000	513,000

- (i) Each product requires 4 kg of material X, which costs €3.50 per kg.
- (ii) Stocks of finished goods are maintained at 70% of the following month's sales requirements.
- (iii) Stocks of raw materials, sufficient for 30% of the following month's requirements in kgs, are held at the end of each month.
- (iv) The cash collection pattern from sales is expected to be:

**Cash Customers:** 20% of sales revenue will be for immediate cash and cash discount of 5% will be allowed.

**Credit Customers:** 80% of sales revenue will be from credit customers. These debtors will pay their bills 50% in the month after sale and the remainder in the second month after sale.

- (v) One month's credit is received from suppliers.
- (vi) Expenses of the business will be settled as follows:

**Expected Costs:** Wages €12,000 per month, plus 5% of sales revenue per month, payable as incurred.  
Variable overheads €3 per unit, payable as incurred.  
Fixed overheads (including depreciation) €26,000 per month, payable as incurred.

**Capital Costs:** Equipment will be purchased on 1 July costing €48,000 which will have a useful life of 8 years.

To finance this purchase a loan of €42,000 will be secured at 6% per annum. The capital sum is to be repaid in monthly instalments over 2½ years commencing in August. The interest for each month is to be paid on the last day of that month based on the amount of the loan outstanding at that date.

### You are required to:

- (a) Prepare a Production Budget for the four months July to October 2019.
- (b) Prepare a Raw Materials Purchase Budget (in units and €) for the four months July to October 2019.
- (c) Prepare a Cash Budget for the four months July to October 2019.
- (d) Prepare a budgeted Trading and Profit and Loss Account for the four months ending 31/10/2019 (if the budgeted cost of a unit of finished goods is €16).
- (e) Explain why it is important for businesses to prepare regular budgets.

**(80 marks)**