

9. Cash Budgeting

Oak Ltd is preparing to set up business on 01/07/2022 and has made the following forecast for the first six months of trading:

	July	August	September	October	November	December	Total
	€	€	€	€	€	€	€
Sales	480,000	560,000	576,000	580,000	600,000	650,000	3,446,000
Purchases	288,000	336,000	345,000	350,000	360,000	380,000	2,059,000

(i) The expected selling price is €80 per unit.

(ii) The cash collection pattern from sales/debtors is expected to be:

Cash Customers 30% of sales revenue will be for immediate cash and cash discount of 5% will be allowed.

Credit Customers 70% 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.

(iii) The cash payments pattern for purchases is expected to be:

Credit Suppliers The purchases will be paid for 50% in the month after purchase when a 2% cash discount will be received. The remaining purchases will be paid for in the second month after purchase.

(iv) Expenses of the business will be settled as follows:

Expected Costs Wages €40,000 per month payable as incurred.
Variable overheads €10 per unit payable as incurred.
Fixed overheads (including depreciation) will be €80,000 per month payable as incurred.

Capital Costs Machinery costing €40,000 will be purchased on 01/07/2022. The machinery will have an estimated useful life of 5 years and a residual value of €2,200.
This will be partly financed by means of a loan of €24,000 at 6% per annum. The capital sum is to be repaid in 12 equal monthly instalments commencing on 01/08/2022.
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, commencing on 31/07/2022.

Required:

(a) Prepare a cash budget for the six months July to December 2022.

(b) Prepare a budgeted profit and loss account for the six months ended 31/12/2022.

(c) (i) Explain what is meant by the term 'principal budget factor'. Give **two** examples, other than sales.
(ii) On the basis of the cash budget you have prepared what advice would you give Oak Ltd?

(80 marks)