

---

# Cash Budgets

---

---

## Retro LTD

---

---

### 2015

---

---

## Step By Step Approach

---

## PART A

Part A is asking you to Prepare a cash budget for four months. The budget will look like the following

Cash budget for Retro Ltd for the four months July to December 2016.							
Receipts	July	Aug	Sept	Oct	Nov	Dec	Total
Cash Sales	79,800	83,600	110,200	112,100	117,800	118,750	622,500
Credit Sale 1		168,000	176,000	232,000	236,000	248,000	1,060,000
Credit Sale 2			168,000	176,000	232,000	236,000	812,000
<b>Total Receipts</b>	<b>81,000</b>	<b>182,250</b>	<b>295,875</b>	<b>325,875</b>	<b>585,800</b>	<b>602,750</b>	<b>2,494,250</b>
<b>Payments</b>							
Purchases Cr 1		88,200	107,800	127,400	129,500	166,600	619,850
Purchases Cr 2			90,000	110,000	130,000	132,500	462,500
Wages	60,000	60,000	60,000	60,000	60,000	60,000	360,000
Variable OH	84,000	88,000	116,000	118,000	124,000	125,000	655,000
Fixed OH	64,300	64,300	64,300	64,300	64,300	64,300	385,500
Equipment	42,000						42,000
Loan Repayment		1,000	1,000	1,000	1,000	1,000	5,000
Loan interest	180	175	170	165	160	155	1005
<b>Total Payments</b>	<b>250,480</b>	<b>301,675</b>	<b>439,270</b>	<b>480,865</b>	<b>509,310</b>	<b>549,555</b>	<b>2,531,155</b>
<b>Net Cash</b>	<b>(170,680)</b>	<b>(50,075)</b>	<b>14,930</b>	<b>39,235</b>	<b>76,490</b>	<b>53,195</b>	<b>(36,905)</b>
Add Op. Cash		(134,680)	(184,755)	(169,825)	(130,590)	(54,100)	
Add Bank Loan	36,000						36,000
<b>Closing Cash</b>	<b>(134,680)</b>	<b>(184,755)</b>	<b>(169,825)</b>	<b>(130,590)</b>	<b>(54,100)</b>	<b>(905)</b>	<b>(905)</b>

NOTE - You don't have to complete the total column but the closing cash for October and the closing cash for the Total Column must be the same - this can be a way to check if the question has been completed correctly - TIMING MAY BE AN ISSUE HERE

Important totals are as follows. These will be needed for part B when you will have to prepare a budgeted profit and loss account.

Wages	Variable Overheads
Fixed Costs	Loan Interest

Remember to include - Discount, interest and depreciation as well for part B

<b>RECEIPTS</b>
-----------------

**An adjustment is needed here**

This is the income for the business over a six-month period. In the question under part (ii) It gives you cash customer and credit customers

**Cash and Credit Receipts**

1. Cash customer says that 20% of sales revenue will be for immediate cash. (The sales revenue figure for each month will be given in the question)
  - a. Calculate the 20% of Revenue (this is given in the question). This will be the cash figure but 5% needs to be taken away for discount allowed
2. Credit customer are 80% of sales revenue. These debtors will pay their bills 50% in the month after sales and the remainder in the second month after sales.

**Sales revenue for each month**

	July	Aug	Sept	Oct	Nov	Dec	Total
Sales	420,000	440,000	580,000	590,000	620,000	625,000	3,275,000

Taken from the question

**Workings****July****Cash Sales**

€420,000 \* 20%      Taken from the question

(-) €84,000

€336,000

**Credit Sales**

€336,000 \* 50%

(-) €168,000      Month 1 Credit sales Aug

€168,000      Month 2 Credit sales Sept

€84,000 \* 5%

€4,200

Discount

€79,800

Cash sales July

**August****Cash Sales**

€440,000 \* 20%      Taken from the question

(-) €88,000**Credit Sales**

€352,200 \* 50%

(-) €176,000      Month 1 Credit sales Sept

## Cash Budget

Retro LTD  
(2015)

€352,200		€176,000	Month 2 Credit sales Oct
€88,000 * 5%			
<u>€4,400</u>	Discount		
€83,600	Cash sales August		

**September**Cash Sales

€580,000 * 20%	Taken from the question
<u>(-) €116,000</u>	
€464,000	

Credit Sales

€464,000 * 50%	
<u>(-) €232,000</u>	Month 1 Credit sales Oct
€232,000	Month 1 Credit sales Nov

€116,000 * 5%	
<u>€5,800</u>	Discount
€110,200	Cash sales Sept

**October**Cash Sales

€590,000 * 20%	Taken from the question
<u>(-) €118,000</u>	
€472,000	

Credit Sales

€472,000 * 50%	
<u>(-) €236,000</u>	Month 1 Credit sales Oct
€236,000	Month 1 Credit sales Nov

€118,000 * 5%	
<u>€5,900</u>	Discount
€112,100	Cash sales Oct

**November**Cash Sales

€620,000 * 20%	Taken from the question
<u>(-) €124,000</u>	
€496,000	

Credit Sales

€496,000 * 50%	
<u>(-) €248,000</u>	Month 1 Credit sales Oct
€248,000	Month 1 Credit sales Nov

€124,000 \* 5%

€6,200

Discount

€112,100

Cash sales Nov

DecemberCash Sales

€625,000 \* 20%

Taken from the question

(-) €125,000

Cash sales Oct

€500,000

Credit Sales

€500,000 \* 50%

(-) €250,000 Debtors

€250,000 Debtors

€125,000 \* 5%

€6,250

Discount

€118,750

Cash sales Dec

Remember - we have discount allowed as well in this question. Discount allowed is an expense and we will need a total for this figure for Part B - Prepare a budget profit and loss account.

Discount Allowed

July €4,200

August €4,400

September €5,800

October €5,900

November €6,200

December €6,250

€32,750

Part B - Budget Profit and Loss account

Receipts	July	Aug	Sept	Oct	Nov	Dec	Total
Cash Sales	79,800	83,600	110,200	112,100	117,800	118,750	622,500
Credit Sale 1		168,000	176,000	232,000	236,000	248,000	1,060,000
Credit Sale 2			168,000	176,000	232,000	236,000	812,000

Debtors Figure

NOTE - The November figure for credit sale (2 months) of €248,000 the December figure of €250,000 (credit sale 1 and credit sale 2) would be the debtor's figure if you were asked to complete a balance sheet

**Total Receipts**

**An adjustment is needed here**

- To calculate the Total Receipts, we add up the figures cash sale and credit sales for each month

Receipts	July	Aug	Sept	Oct	Nov	Dec	Total
Cash Sales	79,800	83,600	110,200	112,100	117,800	118,750	622,500
Credit Sale 1		168,000	176,000	232,000	236,000	248,000	1,060,000
Credit Sale 2			168,000	176,000	232,000	236,000	812,000
Total Receipts	81,000	182,250	295,875	325,875	585,800	602,750	2,494,250

**PAYMENTS**

We keep working down through the question. The next Adjustment (iii), relates to purchases  
*'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'*

**Purchases**

**An adjustment is needed here**

- See part (v) from the question - it says  
*'one month's credit is receive from suppliers'*

**Credit Purchases**

- We pay our creditors 50% in the month after purchase with a 2% discount (Discount received)
  - Calculate the 50% of purchases (this is given in the question). This will be the credit figure for month 1 but 2% needs to be taken away for discount allowed
- The remainder will be paid two months after purchase

**Workings**

<b><u>July</u></b>		<b><u>August</u></b>	
<b><u>Credit purchases</u></b>		<b><u>Credit purchases</u></b>	
€180,000 * 50%	from the question	€220,000 * 50%	from the question
<u>(-) €90,000</u>		<u>(-) €110,000</u>	
€90,000	Credit 2 Sept	€110,000	Credit 2 Oct
€90,000 * 2%		€110,000 * 2%	
<u>€1,800</u>	Discount received	<u>€2,200</u>	Discount received
€88,200	Credit 1 Aug	€107,800	Credit 1 Sept
<b><u>Sept</u></b>		<b><u>Oct</u></b>	
<b><u>Credit purchases</u></b>		<b><u>Credit purchases</u></b>	
€260,000 * 50%	from the question	€265,000 * 50%	from the question
<u>(-) €130,000</u>		<u>(-) €132,500</u>	
€130,000	Credit 2 Nov	€132,500	Credit 2 Dec
€130,000 * 2%		€132,500 * 2%	
<u>€2,600</u>	Discount received	<u>€2,650</u>	Discount received
€127,400	Credit 1 Oct	€129,850	Credit 1 Nov
<b><u>Nov</u></b>			
<b><u>Credit purchases</u></b>			
€340,000 * 50%	from the question		
<u>(-) €170,000</u>			
€170,000	Creditor		
€170,000 * 2%			
<u>€3,400</u>	Discount received		
€166,600	Credit 1 Dec		

Remember - we have discount received as well in this question. Discount received is an income and we will need a total for this figure for Part B - Prepare a budget profit and loss account.

Discount Received

July	€1,800
August	€2,200
September	€2,600
October	€2,650
November	<u>€3,400</u>
	€12,650

Part B - Budget Profit and Loss account

Receipts	July	Aug	Sept	Oct	Nov	Dec	Total
Cash Sales	79,800	83,600	110,200	112,100	117,800	118,750	622,500
Credit Sale 1		168,000	176,000	232,000	236,000	248,000	1,060,000
Credit Sale 2			168,000	176,000	232,000	236,000	812,000
Total Receipts	81,000	182,250	295,875	325,875	585,800	602,750	2,494,250
Payments							
Purchases Cr 1		88,200	107,800	127,400	129,500	166,600	619,850
Purchases Cr 2			90,000	110,000	130,000	132,500	462,500

Creditors Figure

NOTE - The October figure of €148,512 is not included in the cash budget as the budget is only for 4 months. But this €148,512 would be the creditors figure if you were asked to complete a balance sheet

**EXPENSES**

NOTE -

- Adjustment (iv) will give you the list of the rest of the expenses that will go in the payments section of the cash budget. These include
 

(a) Wages	(b) Variable Overheads
(c) Fixed Overheads	(d) Equipment (Just the figure from the question)
(e) Loan Repayment	(f) Loan Interest
- Work down through these expenses, complete the working (if needed) and enter the figures into the Cash Budget



Remember not to include depreciation as this is not cash and only cash items are entered into the cash budget but the depreciation for will be included in part D - prepare a budgets trading and profit and loss account for Irwin Ltd

### Wages

**An adjustment is needed here**

1. It tells us under expected costs that

*'wages are €60,000 payable as incurred'*

2. This means that €60,00 will be entered for each month

Receipts	July	Aug	Sept	Oct	Nov	Dec	Total
Cash Sales	79,800	83,600	110,200	112,100	117,800	118,750	622,500
Credit Sale 1		168,000	176,000	232,000	236,000	248,000	1,060,000
Credit Sale 2			168,000	176,000	232,000	236,000	812,000
Total Receipts	81,000	182,250	295,875	325,875	585,800	602,750	2,494,250
<b>Payments</b>							
Purchases Cr 1		88,200	107,800	127,400	129,500	166,600	619,850
Purchases Cr 2			90,000	110,000	130,000	132,500	462,500
Wages	60,000	60,000	60,000	60,000	60,000	60,000	360,000

### Variable Overheads

**An adjustment is needed here**

1. It tells us under expected costs that

*'Variable overheads €10 per unit, payable as incurred'*

2. Variable overhead are overheads that increase when more units are produced (For example Light and heat - the more you use the more you pay, raw materials the more you use the more you pay).
3. To calculate the variable overheads for this question we take the sales figure in the question for each month and divide it by the expected selling price (Part (i)). This will give us the number of units sold for that month

Sales revenue for each month

	July	Aug	Sept	Oct	Nov	Dec	Total
Sales	420,000	440,000	580,000	590,000	620,000	625,000	3,275,000

Taken from the question

WorkingsJuly

Sales revenue	<u>€420,000</u>	Taken from the question
Selling price	50	Taken from the Question
	8,400 units	

$$8,400 * 10 = €84,000 \quad \text{Variable OH July}$$

August

Sales revenue	<u>€440,000</u>	Taken from the question
Selling price	50	Taken from the Question
	8,800 units	

$$8,800 * 10 = €88,000 \quad \text{Variable OH Aug}$$

September

Sales revenue	<u>€580,000</u>	Taken from the question
Selling price	50	Taken from the Question
	11,600 units	

$$11,600 * 10 = €116,000 \quad \text{Variable OH Sept}$$

October

Sales revenue	<u>€590,000</u>	Taken from the question
Selling price	50	Taken from the Question
	11,800 units	

$$11,800 * 10 = €118,000 \quad \text{Variable OH Oct}$$

**Nov**

Sales revenue	€620,000	Taken from the question
Selling price	50	Taken from the Question
	12,400 units	

$$12,400 * 10 = €124,000 \quad \text{Variable OH Nov}$$

**December**

Sales revenue	€625,000	Taken from the question
Selling price	50	Taken from the Question
	12,500 units	

$$12,500 * 10 = €125,000 \quad \text{Variable OH Dec}$$

Receipts	July	Aug	Sept	Oct	Nov	Dec	Total
Cash Sales	79,800	83,600	110,200	112,100	117,800	118,750	622,500
Credit Sale 1		168,000	176,000	232,000	236,000	248,000	1,060,000
Credit Sale 2			168,000	176,000	232,000	236,000	812,000
Total Receipts	81,000	182,250	295,875	325,875	585,800	602,750	2,494,250
Payments							
Purchases Cr 1		88,200	107,800	127,400	129,500	166,600	619,850
Purchases Cr 2			90,000	110,000	130,000	132,500	462,500
Wages	60,000	60,000	60,000	60,000	60,000	60,000	360,000
Variable OH	84,000	88,000	116,000	118,000	124,000	125,000	655,000

**Fixed Overheads**

**An adjustment is needed here**

- It tells us under expected costs that  
*'Fixed overheads (including depreciation) €65,000 per month, payable as incurred.'*
- The fixed cost in the question includes depreciation. As we are doing a cash budget, we only include cash items.
- This means we need to calculate the depreciation on the equipment and take it out of the fixed costs figure.

4. This new figure for fixed costs will go in the cash budget and the depreciation figure will go in the Profit and Loss Account (Part D)

5. As part of Capital Cost is says

*'equipment will be purchased on 1 July costing €42,000 which will have a useful life of 5 years'*

To calculate the depreciation, we do the following

$$€42,000 / 5$$

$$€8,400 \text{ Depreciation per year}$$

We are doing the cash budget per month, so we need to find the monthly depreciation figure

$$€8,400 / 12$$

$$€700 \quad \text{Depreciation per year}$$

Fixed Costs €65,000 Taken from the question

Depreciation (€700) See above working (Depreciation per month)

$$€64,300 \quad \text{Fixed Cost Cash Budget}$$

#### NOTE

As the €64,300 figure is the fixed overhead figure it will be the same for each month in the cash budget

The depreciation for the budget trading and profit and loss account would be

$$€700 * 6 \text{ Months} = €4,200$$

Receipts	July	Aug	Sept	Oct	Nov	Dec	Total
Cash Sales	79,800	83,600	110,200	112,100	117,800	118,750	622,500
Credit Sale 1		168,000	176,000	232,000	236,000	248,000	1,060,000
Credit Sale 2			168,000	176,000	232,000	236,000	812,000
<b>Total Receipts</b>	<b>81,000</b>	<b>182,250</b>	<b>295,875</b>	<b>325,875</b>	<b>585,800</b>	<b>602,750</b>	<b>2,494,250</b>
<b>Payments</b>							
Purchases Cr 1		88,200	107,800	127,400	129,500	166,600	619,850
Purchases Cr 2			90,000	110,000	130,000	132,500	462,500
Wages	60,000	60,000	60,000	60,000	60,000	60,000	360,000
Variable OH	84,000	88,000	116,000	118,000	124,000	125,000	655,000
Fixed OH	64,300	64,300	64,300	64,300	64,300	64,300	385,500

<b>Equipment</b>
------------------

Use the figure that is given in the question

1. It tells us under capital costs that

*'Equipment will be purchased on 1 July costing €42,000 which will have a useful life of 5 years.'*

2. This means that in July you put €42,000

Receipts	July	Aug	Sept	Oct	Nov	Dec	Total
Cash Sales	79,800	83,600	110,200	112,100	117,800	118,750	622,500
Credit Sale 1		168,000	176,000	232,000	236,000	248,000	1,060,000
Credit Sale 2			168,000	176,000	232,000	236,000	812,000
<b>Total Receipts</b>	<b>81,000</b>	<b>182,250</b>	<b>295,875</b>	<b>325,875</b>	<b>585,800</b>	<b>602,750</b>	<b>2,494,250</b>
Payments							
Purchases Cr 1		88,200	107,800	127,400	129,500	166,600	619,850
Purchases Cr 2			90,000	110,000	130,000	132,500	462,500
Wages	60,000	60,000	60,000	60,000	60,000	60,000	360,000
Variable OH	84,000	88,000	116,000	118,000	124,000	125,000	655,000
Fixed OH	64,300	64,300	64,300	64,300	64,300	64,300	385,500
Equipment	42,000						42,000

<b>Loan Repayments</b>
------------------------

An adjustment is needed here

1. It tells us under capital costs that

*'To finance this purchase, a loan of €36,000 will be secured at 6% per annum'*  
and

*'The capital sum will be repaid in 36 monthly instalments commencing in August'*

2. To find out how much the instalments are we take the loan figure from the question and divide it by 36

$$€36,000 / 36 = €1,000 \text{ per month}$$

NOTE - As per the question the repayment on the loan and the interest doesn't start until August

*'Monthly capital and interest payments will commence in August'*

Receipts	July	Aug	Sept	Oct	Nov	Dec	Total
Cash Sales	79,800	83,600	110,200	112,100	117,800	118,750	622,500
Credit Sale 1		168,000	176,000	232,000	236,000	248,000	1,060,000
Credit Sale 2			168,000	176,000	232,000	236,000	812,000
Total Receipts	81,000	182,250	295,875	325,875	585,800	602,750	2,494,250
<b>Payments</b>							
Purchases Cr 1		88,200	107,800	127,400	129,500	166,600	619,850
Purchases Cr 2			90,000	110,000	130,000	132,500	462,500
Wages	60,000	60,000	60,000	60,000	60,000	60,000	360,000
Variable OH	84,000	88,000	116,000	118,000	124,000	125,000	655,000
Fixed OH	64,300	64,300	64,300	64,300	64,300	64,300	385,500
Equipment	42,000						42,000
Loan Repayment		1,000	1,000	1,000	1,000	1,000	5,000

<b>Loan Interest</b>
----------------------

**An adjustment is needed here**

1. It tells us under capital costs that

*'To finance this purchase, a loan of €36,000 will be secured at 6% per annum'*

*and*

*'The interest for each month is to be paid on the last day of the month based on the amount of the loan outstanding at that date'*

NOTE -

*'based on the amount of the loan outstanding at that date'*

This is very important because before you calculate the loan interest, we need to reduce the loan by the loan repayment from the previous month - €1,000 will reduce the principal from the previous month

**July**

NOTE - The interest repayment will start in July as per the Question

Principal \* Rate

€36,000 \* 6% Taken from the Question

€2,160

Yearly amount

Remember the budget is per month, so

€2,160 / 12

€180

Monthly amount

**August**

NOTE - Remember we have paid €1,000 off the principal in the form of a loan repayment. So  
 €36,000 - €1,000  
 = €35,000

Principal * Rate		Remember the budget is per month, so
€35,000 * 6% Taken form the Question		€2,100 / 12
€2,100	Yearly amount	€175 Monthly amount

**September**

NOTE - Remember we have paid €1,000 off the principal in the form of a loan repayment. So  
 €35,000 - €1,000  
 = €34,000

Principal * Rate		Remember the budget is per month, so
€34,000 * 6% Taken form the Question		€2,040 / 12
€2,040	Yearly amount	€170 Monthly amount

**October**

NOTE - Remember we have paid €1,000 off the principal in the form of a loan repayment. So  
 €34,000 - €1,000  
 = €33,000

Principal * Rate		Remember the budget is per month, so
€33,000 * 6% Taken form the Question		€1,980 / 12
€1,980	Yearly amount	€165 Monthly amount

**November**

NOTE - Remember we have paid €1,000 off the principal in the form of a loan repayment. So  
 €33,000 - €1,000  
 = €32,000

Principal \* Rate

Remember the budget is per month, so

€32,000 \* 6% Taken form the Question

€1,920 / 12

€1,920      Yearly amount

€160      Monthly amount

**December**

NOTE - Remember we have paid €1,000 off the principal in the form of a loan repayment. So

€32,000 - €1,000

= €31,000

Principal \* Rate

Remember the budget is per month, so

€31,000 \* 6% Taken form the Question

€1,860 / 12

€1,860      Yearly amount

€155      Monthly amount

Receipts	July	Aug	Sept	Oct	Nov	Dec	Total
Cash Sales	79,800	83,600	110,200	112,100	117,800	118,750	622,500
Credit Sale 1		168,000	176,000	232,000	236,000	248,000	1,060,000
Credit Sale 2			168,000	176,000	232,000	236,000	812,000
Total Receipts	81,000	182,250	295,875	325,875	585,800	602,750	2,494,250
<b>Payments</b>							
Purchases Cr 1		88,200	107,800	127,400	129,500	166,600	619,850
Purchases Cr 2			90,000	110,000	130,000	132,500	462,500
Wages	60,000	60,000	60,000	60,000	60,000	60,000	360,000
Variable OH	84,000	88,000	116,000	118,000	124,000	125,000	655,000
Fixed OH	64,300	64,300	64,300	64,300	64,300	64,300	385,500
Equipment	42,000						42,000
Loan Repayment		1,000	1,000	1,000	1,000	1,000	5,000
Loan interest	180	175	170	165	160	155	1005

<b>Total Payments</b>
-----------------------

**An adjustment is needed here**

- To calculate the Total Payment, we add up the figures in the payment section for each column for each month
- This will include - purchases + wages + variable overheads + fixed costs + equipment + loan repayment + loan interest



<b>Receipts</b>	<b>July</b>	<b>Aug</b>	<b>Sept</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Total</b>
Cash Sales	79,800	83,600	110,200	112,100	117,800	118,750	622,500
Credit Sale 1		168,000	176,000	232,000	236,000	248,000	1,060,000
Credit Sale 2			168,000	176,000	232,000	236,000	812,000
<b>Total Receipts</b>	<b>81,000</b>	<b>182,250</b>	<b>295,875</b>	<b>325,875</b>	<b>585,800</b>	<b>602,750</b>	<b>2,494,250</b>
<b>Payments</b>							
Purchases Cr 1		88,200	107,800	127,400	129,500	166,600	619,850
Purchases Cr 2			90,000	110,000	130,000	132,500	462,500
Wages	60,000	60,000	60,000	60,000	60,000	60,000	360,000
Variable OH	84,000	88,000	116,000	118,000	124,000	125,000	655,000
Fixed OH	64,300	64,300	64,300	64,300	64,300	64,300	385,500
Equipment	42,000						42,000
Loan Repayment		1,000	1,000	1,000	1,000	1,000	5,000
Loan interest	180	175	170	165	160	155	1005
<b>Total Payments</b>	<b>250,480</b>	<b>301,675</b>	<b>439,270</b>	<b>480,865</b>	<b>509,310</b>	<b>549,555</b>	<b>2,531,155</b>

Net Cash
----------

An adjustment is needed here

- To calculate the Net Cash, we take the Total Receipts (A) and take away the Total Payments (B)

Receipts	July	Aug	Sept	Oct	Nov	Dec	Total
Cash Sales	79,800	83,600	110,200	112,100	117,800	118,750	622,500
Credit Sale 1		168,000	176,000	232,000	236,000	248,000	1,060,000
Credit Sale 2			168,000	176,000	232,000	236,000	812,000
<b>Total Receipts</b>	<b>81,000</b>	<b>182,250</b>	<b>295,875</b>	<b>325,875</b>	<b>585,800</b>	<b>602,750</b>	<b>2,494,250</b>
Payments							
Purchases Cr 1		88,200	107,800	127,400	129,500	166,600	619,850
Purchases Cr 2			90,000	110,000	130,000	132,500	462,500
Wages	60,000	60,000	60,000	60,000	60,000	60,000	360,000
Variable OH	84,000	88,000	116,000	118,000	124,000	125,000	655,000
Fixed OH	64,300	64,300	64,300	64,300	64,300	64,300	385,500
Equipment	42,000						42,000
Loan Repayment		1,000	1,000	1,000	1,000	1,000	5,000
Loan interest	180	175	170	165	160	155	1005
<b>Total Payments</b>	<b>250,480</b>	<b>301,675</b>	<b>439,270</b>	<b>480,865</b>	<b>509,310</b>	<b>549,555</b>	<b>2,531,155</b>
<b>Net Cash</b>	<b>(170,680)</b>	<b>(50,075)</b>	<b>14,930</b>	<b>39,235</b>	<b>76,490</b>	<b>53,195</b>	<b>(36,905)</b>

<b>Opening Cash</b>
---------------------

**An adjustment is needed here**

- Remember the closing cash for one month is the opening cash for the next month  
For example July's Closing Cash will be August's Opening Cash, August Closing Cash will be September Opening Cash and so forth.
- There may not be any opening cash for the first month, so we leave it blank or put in Zero (0). If there was any opening cash, it would tell you in the question

NOTE - This part of the question will have to be complete column by column (month by month), this is because you will have to calculate the closing cash for the month, so you have the opening cash for the next month

Receipts	July	Aug	Sept	Oct	Nov	Dec	Total
Cash Sales	79,800	83,600	110,200	112,100	117,800	118,750	622,500
Credit Sale 1		168,000	176,000	232,000	236,000	248,000	1,060,000
Credit Sale 2			168,000	176,000	232,000	236,000	812,000
<b>Total Receipts</b>	<b>81,000</b>	<b>182,250</b>	<b>295,875</b>	<b>325,875</b>	<b>585,800</b>	<b>602,750</b>	<b>2,494,250</b>
<b>Payments</b>							
Purchases Cr 1		88,200	107,800	127,400	129,500	166,600	619,850
Purchases Cr 2			90,000	110,000	130,000	132,500	462,500
Wages	60,000	60,000	60,000	60,000	60,000	60,000	360,000
Variable OH	84,000	88,000	116,000	118,000	124,000	125,000	655,000
Fixed OH	64,300	64,300	64,300	64,300	64,300	64,300	385,500
Equipment	42,000						42,000
Loan Repayment		1,000	1,000	1,000	1,000	1,000	5,000
Loan interest	180	175	170	165	160	155	1005
<b>Total Payments</b>	<b>250,480</b>	<b>301,675</b>	<b>439,270</b>	<b>480,865</b>	<b>509,310</b>	<b>549,555</b>	<b>2,531,155</b>
<b>Net Cash</b>	<b>(170,680)</b>	<b>(50,075)</b>	<b>14,930</b>	<b>39,235</b>	<b>76,490</b>	<b>53,195</b>	<b>(36,905)</b>
Add Op. Cash		(134,680)	(184,755)	(169,825)	(130,590)	(54,100)	
Add Bank Loan	36,000						36,000
<b>Closing Cash</b>	<b>(134,680)</b>	<b>(184,755)</b>	<b>(169,825)</b>	<b>(130,590)</b>	<b>(54,100)</b>	<b>(905)</b>	<b>(905)</b>

Bank Loan
-----------

Use the figure that is given in the question

1. It tells us under capital costs that

'To finance this purchase, a loan of €36,000 will be secured at 6% per annum.'

2. The loan figure will be taken from the question and will be the loan figure that was used to purchase the equipment (€36,000)

Receipts	July	Aug	Sept	Oct	Nov	Dec	Total
Cash Sales	79,800	83,600	110,200	112,100	117,800	118,750	622,500
Credit Sale 1		168,000	176,000	232,000	236,000	248,000	1,060,000
Credit Sale 2			168,000	176,000	232,000	236,000	812,000
<b>Total Receipts</b>	<b>81,000</b>	<b>182,250</b>	<b>295,875</b>	<b>325,875</b>	<b>585,800</b>	<b>602,750</b>	<b>2,494,250</b>
Payments							
Purchases Cr 1		88,200	107,800	127,400	129,500	166,600	619,850
Purchases Cr 2			90,000	110,000	130,000	132,500	462,500
Wages	60,000	60,000	60,000	60,000	60,000	60,000	360,000
Variable OH	84,000	88,000	116,000	118,000	124,000	125,000	655,000
Fixed OH	64,300	64,300	64,300	64,300	64,300	64,300	385,500
Equipment	42,000						42,000
Loan Repayment		1,000	1,000	1,000	1,000	1,000	5,000
Loan interest	180	175	170	165	160	155	1005
<b>Total Payments</b>	<b>250,480</b>	<b>301,675</b>	<b>439,270</b>	<b>480,865</b>	<b>509,310</b>	<b>549,555</b>	<b>2,531,155</b>
<b>Net Cash</b>	<b>(170,680)</b>	<b>(50,075)</b>	<b>14,930</b>	<b>39,235</b>	<b>76,490</b>	<b>53,195</b>	<b>(36,905)</b>
Add Op. Cash		(134,680)	(184,755)	(169,825)	(130,590)	(54,100)	
Add Bank Loan	36,000						36,000
<b>Closing Cash</b>	<b>(134,680)</b>	<b>(184,755)</b>	<b>(169,825)</b>	<b>(130,590)</b>	<b>(54,100)</b>	<b>(905)</b>	<b>(905)</b>

<b>Closing Cash</b>
---------------------

**An adjustment is needed here**

- The closing cash is calculated by adding Net Cash, opening cash and bank loan (if any) together

NOTE - Remember the closing cash for one month is the opening cash for the next month

Cash budget for Retro Ltd for the six months July to December 2016.							
Receipts	July	Aug	Sept	Oct	Nov	Dec	Total
Cash Sales	79,800	83,600	110,200	112,100	117,800	118,750	622,500
Credit Sale 1		168,000	176,000	232,000	236,000	248,000	1,060,000
Credit Sale 2			168,000	176,000	232,000	236,000	812,000
<b>Total Receipts</b>	<b>81,000</b>	<b>182,250</b>	<b>295,875</b>	<b>325,875</b>	<b>585,800</b>	<b>602,750</b>	<b>2,494,250</b>
Payments							
Purchases Cr 1		88,200	107,800	127,400	129,500	166,600	619,850
Purchases Cr 2			90,000	110,000	130,000	132,500	462,500
Wages	60,000	60,000	60,000	60,000	60,000	60,000	360,000
Variable OH	84,000	88,000	116,000	118,000	124,000	125,000	655,000
Fixed OH	64,300	64,300	64,300	64,300	64,300	64,300	385,500
Equipment	42,000						42,000
Loan Repayment		1,000	1,000	1,000	1,000	1,000	5,000
Loan interest	180	175	170	165	160	155	1005
<b>Total Payments</b>	<b>250,480</b>	<b>301,675</b>	<b>439,270</b>	<b>480,865</b>	<b>509,310</b>	<b>549,555</b>	<b>2,531,155</b>
<b>Net Cash</b>	<b>(170,680)</b>	<b>(50,075)</b>	<b>14,930</b>	<b>39,235</b>	<b>76,490</b>	<b>53,195</b>	<b>(36,905)</b>
Add Op. Cash		(134,680)	(184,755)	(169,825)	(130,590)	(54,100)	
Add Bank Loan	36,000						36,000
<b>Closing Cash</b>	<b>(134,680)</b>	<b>(184,755)</b>	<b>(169,825)</b>	<b>(130,590)</b>	<b>(54,100)</b>	<b>(905)</b>	<b>(905)</b>

NOTE - You don't have to complete the Total Colum but the closing cash for October and the closing cash for the Total Column must be the same - this can be a way to check if the question has been completed correctly - TIMING MAY BE AN ISSUE HERE

NOTE - Remember to include the heading - Cash budget for Retro Ltd for the six months July to December 2016

**PART B**

Part B is asking you to prepare a budget trading, profit and loss for four months. This will have the same layout as Question one. The budget will look like the following

<b>Budgeted Trading and Profit and Loss Account for the 6 months ended 31/10/2016</b>			
Sales			3,275,000
<b><u>Less Cost of Sales</u></b>			
Opening stock		0	
Add Purchases		(+ 1,635,000)	
		1,635,000	
Less Closing Stock		0	
Cost of Goods Sold			(-) 1,635,000
<b>Gross Profit</b>			1,640,000
<b><u>Less Expenses</u></b>			
Wages		360,000	
Variable Overheads		(+ 655,000)	
Fixed Overheads		(+ 385,800)	
Depreciation		(+ 4,200)	
Discount Allowed		(+ 32,750)	(-) 1,437,750
Operating Profit			202,250
Discount Received			(+ 12,650)
			214,900
Less Interest			(-) 1,005
Net Profit			213,895

**Sales****A calculation is needed here**

1. This sale figure for the question is got by adding up the sales revenue for each month that is given in the question

	July	Aug	Sept	Oct	Nov	Dec	Total
Sales	420,000	440,000	580,000	590,000	620,000	625,000	3,275,000

Taken from the question

July	€420,000	(Given in the question)
August	€440,000	(Given in the question)
September	€580,000	(Given in the question)
October	€590,000	(Given in the question)
November	€620,000	(Given in the question)
December	<u>€625,000</u>	(Given in the question)
	€3,275,000	

Sales			3,275,000
-------	--	--	-----------

**Opening Stock**

There is no opening stock given to use in this question so we can leave it blank or put in zero (0)

**Purchases****A calculation is needed here**

1. This sale figure for the question is got by adding up the sales revenue for each month that is given in the question

	July	Aug	Sept	Oct	Nov	Dec	Total
Purchases	180,000	220,000	260,000	265,000	340,000	370,000	1,635,000

Taken from the question

July	€180,000	(Given in the question)
August	€220,000	(Given in the question)
September	€260,000	(Given in the question)
October	€265,000	(Given in the question)
November	€340,000	(Given in the question)
December	<u>€370,000</u>	(Given in the question)
	€1,635,000	

Sales			3,275,000
<b><u>Less Cost of Sales</u></b>			
Opening stock		0	
Add Purchases		(+) 1,635,000	
		1,635,000	

### Closing Stock

#### No Adjustment Needed

No adjustment is needed here because it does not tell you when the closing stock is and we haven't complete a production budget or raw material product budget

Sales			3,275,000
<b><u>Less Cost of Sales</u></b>			
Opening stock		0	
Add Purchases		(+) 1,635,000	
		1,635,000	
Less Closing Stock		0	

### Cost of Goods Sold

#### A calculation is needed here

- To calculate the cost of sales - take the closing stock figure away from the purchases figure (Opening stock + purchases)



Sales			3,275,000
<b><u>Less Cost of Sales</u></b>			
Opening stock		0	
Add Purchases		(+) 1,635,000	
		1,635,000	
Less Closing Stock		0	
Cost of Goods Sold			(-) 1,635,000

### Gross Profit

A calculation is needed here

- Gross profit is calculated by taking the figure of cost of sales away from the sales figure  $€3,275,000 - €1,635,000 = €1,640,000$

Sales			3,275,000
<b><u>Less Cost of Sales</u></b>			
Opening stock		0	
Add Purchases		(+) 1,635,000	
		1,635,000	
Less Closing Stock		0	
Cost of Goods Sold			(-) 1,635,000
<b>Gross Profit</b>			1,640,000
Net Profit			213,895

### Expenses

A calculation is needed here

For the Expenses we work down through the payment's items from the cash budget

- Purchases                      This item will go in the trading section of the profit and loss account
- Wages                              €60,000 as per the question

3. Variable Overheads      add up all the figures for each month to get the total figure.  
(€84,000 + €88,000 + €116,000 + €118,000 + €124,000 +  
€125,000 = €655,000)
4. Fixed Costs              add up all the figures for each month to get the total figure.  
(€64,300 + €64,300 + €64,300 + €64,300 + €64,300 + €64,300 =  
€385,800)
5. Depreciation            Also include the depreciation for equipment  
(€700 \* 6 months = €4,200)
6. Discount allowed       add up all the figures for each month from the sale working to  
get the discount allowed figure (remember discount allowed is an  
expense) (€4,200 + €4,400 + €5,800 + €5,900 + €6,200 + €6,250  
= €32,750)

We add up all the expense figure to get a total

Sales			3,275,000
<b><u>Less Cost of Sales</u></b>			
Opening stock		0	
Add Purchases		(+) 1,635,000	
		1,635,000	
Less Closing Stock		0	
Cost of Goods Sold			(-) 1,635,000
<b>Gross Profit</b>			1,640,000
<b><u>Less Expenses</u></b>			
Wages		360,000	
Variable Overheads		(+) 655,000	
Fixed Overheads		(+) 385,800	

Depreciation		(+) 4,200	
Discount Allowed		(+) 32,750	(-) 1,437,750

### Operating Profit

**A calculation is needed here**

- Using the Gross Profit figure, we take away the total expense figure away from it to get the operating profit figure - €1,640,000 - €1,437,750 = €202,250

Sales			3,275,000
<b><u>Less Cost of Sales</u></b>			
Opening stock		0	
Add Purchases		(+) 1,635,000	
		1,635,000	
Less Closing Stock		0	
Cost of Goods Sold			(-) 1,635,000
<b>Gross Profit</b>			1,640,000
<b><u>Less Expenses</u></b>			
Wages		360,000	
Variable Overheads		(+) 655,000	
Fixed Overheads		(+) 385,800	
Depreciation		(+) 4,200	
Discount Allowed		(+) 32,750	(-) 1,437,750
<b>Operating Profit</b>			202,250

### Add Other income (Discount Received)

**A calculation is needed here**

The business has received a discount on their purchases

- Discount allowed                      add up all the figures for each month from the purchases working to get the discount received figure (remember discount received is an income) (€1,800 + €2,200 + €2,600 + €2,650 + €3,400 = €12,650). Remember to add this to the operating profit figure

Remember we get one month's credit, so we don't get a discount for December because we pay for them in January

Sales			3,275,000
<b><u>Less Cost of Sales</u></b>			
Opening stock		0	
Add Purchases		(+) 1,635,000	
		1,635,000	
Less Closing Stock		0	
Cost of Goods Sold			(-) 1,635,000
<b>Gross Profit</b>			1,640,000
<b><u>Less Expenses</u></b>			
Wages		360,000	
Variable Overheads		(+) 655,000	
Fixed Overheads		(+) 385,800	
Depreciation		(+) 4,200	
Discount Allowed		(+) 32,750	(-) 1,437,750
Operating Profit			202,250
Discount Received			(+) 12,650

### Less Interest

A calculation is needed here

- The interest figures are already calculated in Part C as part of the cash budget. Add up all the figures for each month to get the total.

Receipts	July	Aug	Sep	Oct	Nov	Dec	Total
Loan interest	180	175	180	185	190	195	1005

Taken from Part A working - Interest

Sales			3,275,000
<b><u>Less Cost of Sales</u></b>			
Opening stock		0	
Add Purchases		(+) 1,635,000	
		1,635,000	
Less Closing Stock		0	
Cost of Goods Sold			(-) 1,635,000
<b>Gross Profit</b>			1,640,000
<b><u>Less Expenses</u></b>			
Wages		360,000	
Variable Overheads		(+) 655,000	
Fixed Overheads		(+) 385,800	
Depreciation		(+) 4,200	
Discount Allowed		(+) 32,750	(-) 1,437,750
Operating Profit			202,250
Discount Received			(+) 12,650
			214,900
Less Interest			(-) 1,005
Net Profit			213,895

### Net Profit

**A calculation is needed here**

The Net profit figure is calculated by using the Operating profit figure and taking away the interest paid ( $€214,900 - €1,005 = €213,895$ )

NOTE - Remember to include the heading - Budgeted Trading and Profit and Loss Account for the 6 months ended 31/10/2016

<b>Budgeted Trading and Profit and Loss Account for the 6 months ended 31/10/2016</b>			
Sales			3,275,000
<b><u>Less Cost of Sales</u></b>			
Opening stock		0	
Add Purchases		(+ 1,635,000)	
		1,635,000	
Less Closing Stock		0	
Cost of Goods Sold			(-) 1,635,000
<b>Gross Profit</b>			1,640,000
<b><u>Less Expenses</u></b>			
Wages		360,000	
Variable Overheads		(+ 655,000)	
Fixed Overheads		(+ 385,800)	
Depreciation		(+ 4,200)	
Discount Allowed		(+ 32,750)	(-) 1,437,750
Operating Profit			202,250
Discount Received			(+ 12,650)
			214,900
Less Interest			(-) 1,005
<b>Net Profit</b>			<b>213,895</b>

**PART C**

This is the theory part of the question and includes the following

**(i) What options does a business have when it has (a) a cash surplus and (b) a cash deficit?**

**Cash Surplus**

1. This money can be placed in short term investment opportunities in order to gain the most interest.
2. When the company predicts that it will have a cash surplus this allows it to arrange for short-term investment of surplus funds to gain maximum interest.
3. The surplus could be used to pay off any loans or purchase fixed assets

**Cash Deficit**

1. The business needs to arrange alternative sources of finance e.g. a bank overdraft to get them over the period of the deficit.
2. When the company predicts that it will experience cash deficits this enables management to arrange for alternative sources of finance e.g. longer periods of credit or bank overdraft accommodation to cover such deficits.

**(ii) On the basis of the cash budget you have prepared what advice would you give the management of Retro Ltd?**

**Advice**

1. There are serious cash shortages in both July and August. Retro Ltd should change the credit terms for debtors to encourage more prompt payment for example 6% discount for cash payment in month of sale
2. Hire equipment instead of buying it to reduce cash expenditure or delay the start date for repayment of loan/repay loan over longer period of time
3. Agree better credit terms with creditors
4. Examine variable overheads to see if they can be reduced.
5. Examine wage bill to see if it can be reduced