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Financial Forecasting

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Lecture Code of ethics



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projections for the next six months. All sales are credit sales.

March	\$41,000
April	50,000
May	
June	47,000
June	58,000
August	

Sales in January and February were \$41,000 and \$39,000, respectively. Experience has shown that of total sales receipts 10 percent are uncollectible, 40 percent are collected in the month of sale, 30 percent are collected in the following month, and 20 percent are collected two months after sale.

Prepare a monthly cash receipts schedule for the firm for March through August.

Simpson Glove Company

Cash Receipts Schedule

	January	February	March	April	May	June	July	August
Sales	\$41,000	\$39,000	\$41,000	\$50,000	\$32,000	\$47,000	\$58,000	\$62,000
Collections			16,400	20,000	12,800	18,800	23,200	24,800
(40% of								
current sales)								
Collections			11,700	12,300	15,000	9,600	14,100	17,400
(30% of prior		FAC	ULTY OI	- COMM				
month's								
sales)								
Collections			8,200	7,800	8,200	10,000	6,400	9,400
(20% of sales								
2 months								
earlier)								
Total cash			\$36,300	\$40,100	\$36,00 <mark>0</mark>	\$38,400	\$43,700	\$51,600
receipts	-	114		IA				

- Ultravision Inc. anticipates sales of \$290,000 from January through April. Materials will represent 50 percent of sales, and because of level production, material purchases will be equal for each month during the four months of January, February, March, and April.
- Materials are paid for one month after the month purchased. Materials purchased in December of last year were \$25,000 (half of \$50,000 in sales). Labor costs for each of the four months are slightly different due to a provision in the labor contract in which bonuses are paid in February and April. Here are the labor figures:

January \$15,000

February F18,000 of COMMERCE

March 15,000

April 20,000

Fixed overhead is \$11,000 per month.

Prepare a schedule of cash payments for January through April.

Ultravision Inc. Cash Payment Schedule

Dec.	Jan.	Feb.	March	April
* Purchases FAC\$25,000 P	\$36,250	\$36,250	\$36,250	\$36,250
** Payment to material purchases	25,000	36,250	36,250	36,250
Labor	15,000	18,000	15,000	20,000
Fixed overhead	11,000	11,000	<u>11,000</u>	11,000
Total cash payments	\$51,000	\$65,250	\$62,250	\$67,250

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For January through April

* Monthly purchases equal (\$290,000 \times 50%)/4 or \$145,000/4 = \$36,250

** Payment is equal to prior month's purchases.

Graham Potato Company has projected sales of \$6,000 in September, \$10,000 in October, \$16,000 in November, and \$12,000 in December. Of the company's sales, 20 percent are paid for by cash and 80 percent are sold on credit. Experience shows that 40 percent of accounts receivable are paid in the month after the sale, while the remaining 60 percent are paid two months after. Determine collections for November December.

Also assume Graham's cash payments for November and December are \$13,000 and \$6,000, respectively. The beginning cash balance in November is \$5,000, which is the desired minimum balance.

Prepare a cash budget with borrowing needed or repayments for November and December. (You will need to prepare a cash receipts schedule first.)

Graham Potato Company Cash Receipts Schedule

	September	October	November	December
Sales	\$6,000	\$10,000	\$16,000	\$12,000
Credit sales	4,800	8,000	12,800	9,600
(80%)				
Cash sales	1,200	2,000	3,200	2,400
(20%)	FACI	I TV OF COM	(EDCE	
Collections		LIT OF COMI	TERCE	
in month			3,200	5,120
after sales		U 5U		
(40%)				
Collections				
two months		· ·	2,880	4,800
after sales				
(60%)	•	11 00		
Total cash				
receipts	0)6		\$9,280	\$12,320

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Graham Potato Company (Continued) Cash Budget

		D 1
	November	December
Cash receipts	\$ 9,280	\$12,320
Cash payments	13,000	6,000
Net cash flow	LTY OF (3,720) ERCE	6,320
Beginning cash balance	5,000	5,000
Cumulative cash balance	1,280	11,320
Monthly loan (or	3,720	(3,720)
repayment)		
Cumulative loan balance	3,720	-0-
Ending cash balance	\$ 5,000	\$ 7,600

If you have the following data for Middle East Furniture Manufacturing Company:

1- Sales in thousand pounds:

May 30

June 30

July 30

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August 40 September 50 October 60

The value of sales is collected on the basis of: 20% in the same month, and 60% the following month, and 18% in the third month, and 2% bad debt.

- 2- The values of purchasing raw materials and production requirements monthly equivalent to 75% of the value of sales of the following month. Purchases are paid in the month following the purchase.
- 3- Monthly cash expenses are EGP 3,000.
- 4- Depreciation of fixed assets EGP 5000 per month.
- 5- Production output sales of EGP 5000 in November.
- 6- Cash balance last June 6000 pounds.
- 7- The minimum amount of cash to be kept is 5000 EGP per month.

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Required:

- 1- Prepare the company's estimated cash balance sheet for the period from the first of July to the end of September using the previous expected data.
- 2- Comment on the results of the budget.

Table of receipts from sales (Value in thousand pounds)

Statement	May	June	July	August	September	October
Value of sales	30	30	30	40	50	60
(1) 20% in the same month	6 _{ACI}	JLT ⁶ OI	сбм	IER&E	10	12
(2) 60% next month		18	18	18	24	30
(3) 18% in the third month			5.4	5.4	5.4	7.2
Total receipts from sales	6	24	29.4	31.4	39.4	49.2

Table of payments for the payment of purchases

Statement	May	June	July	August	September	October
Value of sales	30	30	30 ^M	MERCE 40	50	60
Value of purchases	22.5	22.5	30	37.5	45	-
Total receipts from sales		22.5	22.5	30	37.5	45

Middle East Company's estimated cash balance for the period from the first of July to the end of September

Month	July	August	September
Statement	July	August	September
Receipts			
A. From Sales	29.4	31.4	39.4
Total receipts	29.4	31.4	39.4
Payments:			
A. Payment of purchases ACULTY UF C	22.5	30	37.5
B. Other			
- Monthly cash expenses	3	3	3
2- Total Payments	25.5	33	40.50
3- Monthly surplus or deficit	3.9	(1.6)	(1.1)
4- Cash balance at the beginning of the month	6	9.9	8.3
5- Cash balance at the end of the month	9.9	8.3	7.2
6- Minimum Cash	(5)	(5)	(5)
7- Net cash position	4.9	3.3	2.2

- Comment on the results of the budget:
- (a) The company is expected to achieve a cash surplu during the three months for which the budget is prepared. This surplus will reach its maximum in July
- (b) The company can exploit this expected surplus in:
- Investing it in short-term projects such as: purchasing securities.
- Amending its financial policies in terms of:
 - Giving better credit terms to customers.
 - Expedite the payment of payments.
- Distribute part of it to shareholders.

