

Section Nine

Cash Budget



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El Zamalek Company has projected sales of \$3,000 in March, \$5,000 in April, \$8,000 in May, and \$6,000 in June. 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 May and June.

Also assume El Zamalek's cash payments for May and June are \$6,500 and \$3,000, respectively. The beginning cash balance in May is \$2,500, which is the desired minimum balance.

Prepare a cash budget with borrowing needed or repayments for May and June.

Answer:

El Zamalek Company Cash receipts schedule

	March	April	May	June
Sales	3000	5000	8000	6000
Credit Sales (80 %)	2400	4000	6400	4800
Cash Sales (20%)	600	1000	1600	1200
Collections in month after sales (40%)		960	1600	2560
Collections Two months after sales (60%)			1440	2400
Total cash receipts			4640	6160

El Zamalek Company

Cash Budget

	May	June
Cash receipts	4640	6160
Cash Payments	6500	3000
Net Cash Flow	(1860)	3160
Beginning cash balance	2500	2500
Cumulative cash balance	640	5660
Monthly loan	1860	(1860)
Cumulative loan balance	1860	0
Ending cash balance	2500	3800

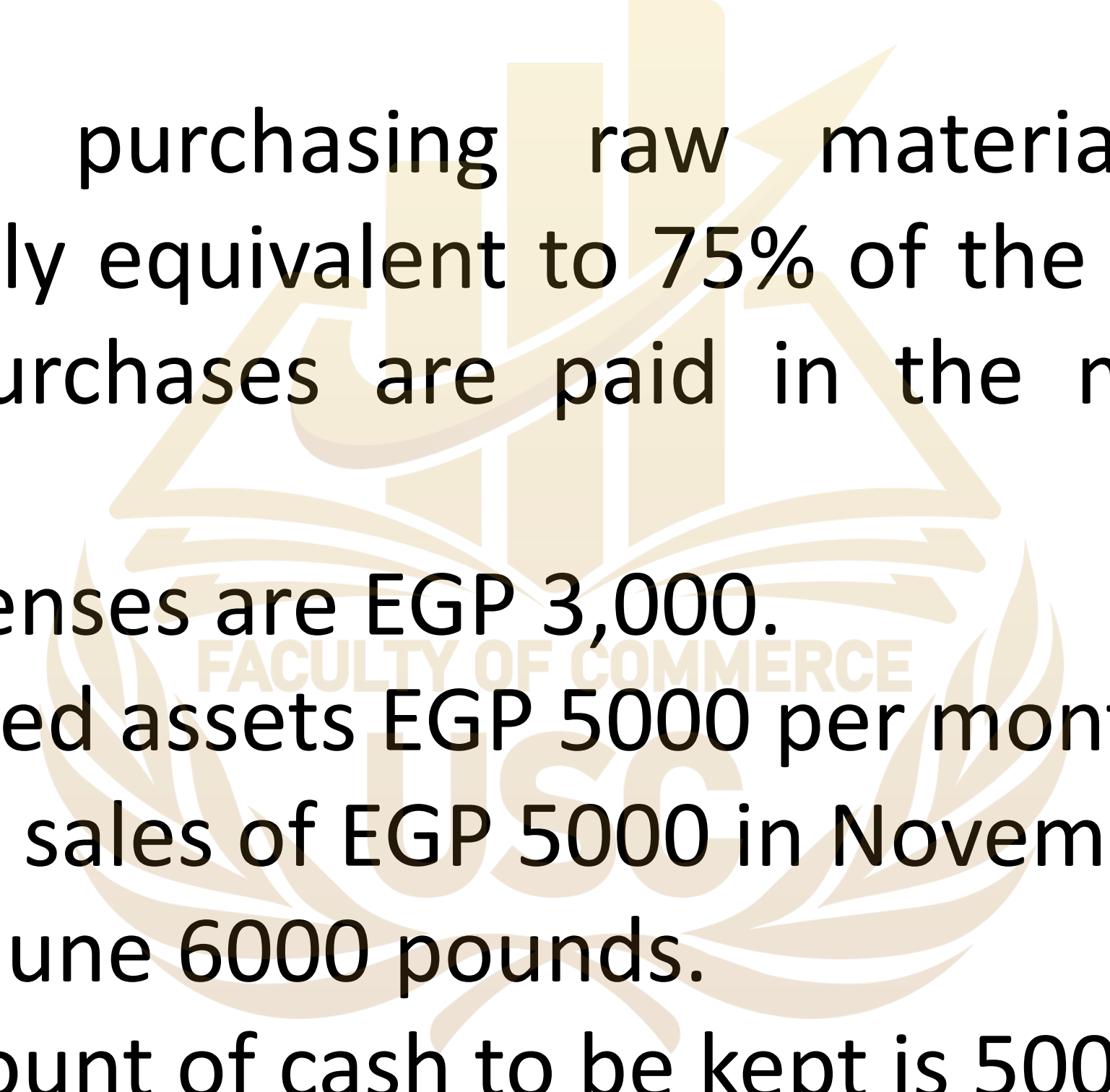
Exercise 2:

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

1-Sales in thousand pounds:

May	30
June	30
July	30
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.

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- 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.

Required:

Prepare the company's estimated cash budget for the period from the first of July to the end of September using the previous expected data.

Answer:

Table in receipts from sales (Value in thousand pounds)

	May	June	July	August	September	October
Value of sales	30	30	30	40	50	60
20% in the same month	6	6	6	8	10	12
60% next month		18	18	18	24	30
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

	May	June	July	August	September	October
Value of sales	30	30	30	40	50	60
Value of purchases	22.5	22.5	3	37.5	45	--
Total Payments	--	22.5	22.5	30	37.5	45

Cash Budget

	July	August	September
Receipts:			
Receipts from sales	29.4	31.4	39.4
Total Receipts	29.4	31.4	39.4
Payments:			
Payments of purchases	22.5	30	37.5
Other Payments			
Monthly cash expenses	3	3	3
Total payments	25.5	33	40.5
Monthly Surplus or deficit	3.9	(1.6)	(1.1)
Cash balance at the beginning of the month	6	9.9	8.3
Cash balance at the end of the month	9.9	8.3	7.2
Minimum cash	(5)	(5)	(5)
Net cash position	4.9	3.3	2.2

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