

Section Seven

Cash Budget



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True & False Questions

1. In a financial statement, "sources" refer to where funds are obtained, while "uses" refer to how those funds are spent.

Answer: True

2. External sources of funds always come from within an organization's retained earnings.

Answer: False

True & False Questions

3. Funds from the issuance of stock are considered a source of funds in a company's financial statement.

Answer: True

4. The "use of funds" statement only includes investments in fixed assets and excludes operational expenses.

Answer: False

5. A use of funds might include paying off long-term debt.

Answer: True



True & False Questions

6. The purpose of identifying sources and uses of funds is to understand an organization's cash flow and financing strategies.

Answer: True



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True & False Questions

7. Retained earnings are considered a source of funds on the balance sheet because they represent profits that are not distributed to shareholders.

Answer: True

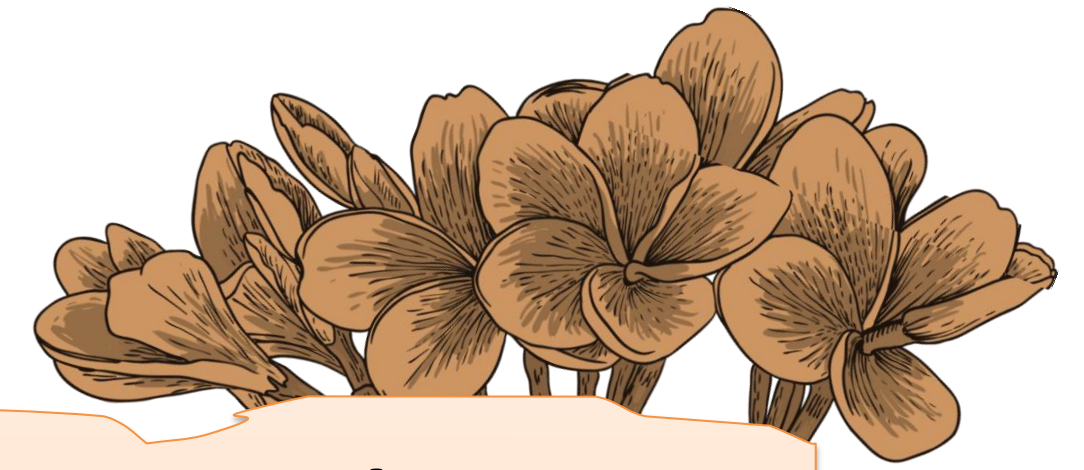
8. Analyzing sources and uses of funds can help determine the financial sustainability of a project or fund.

Answer: True

9. Short-term investments in inventory are considered a use of funds.

Answer: True

True & False Questions



10. Only expenses that contribute directly to profits are considered uses of funds in fund statements.

Answer: False

11. Sources and uses of funds statements are primarily used for external reporting to investors.

Answer: False



True & False Questions

12. The current ratio is a measure of a company's ability to cover its short-term liabilities with its short-term assets.

Answer: True

13. A quick ratio (or acid-test ratio) is a more conservative measure of liquidity than the current ratio because it excludes inventory from current assets.

Answer: True



True & False Questions

14. The acid-test ratio and the quick ratio are different names for the same ratio.

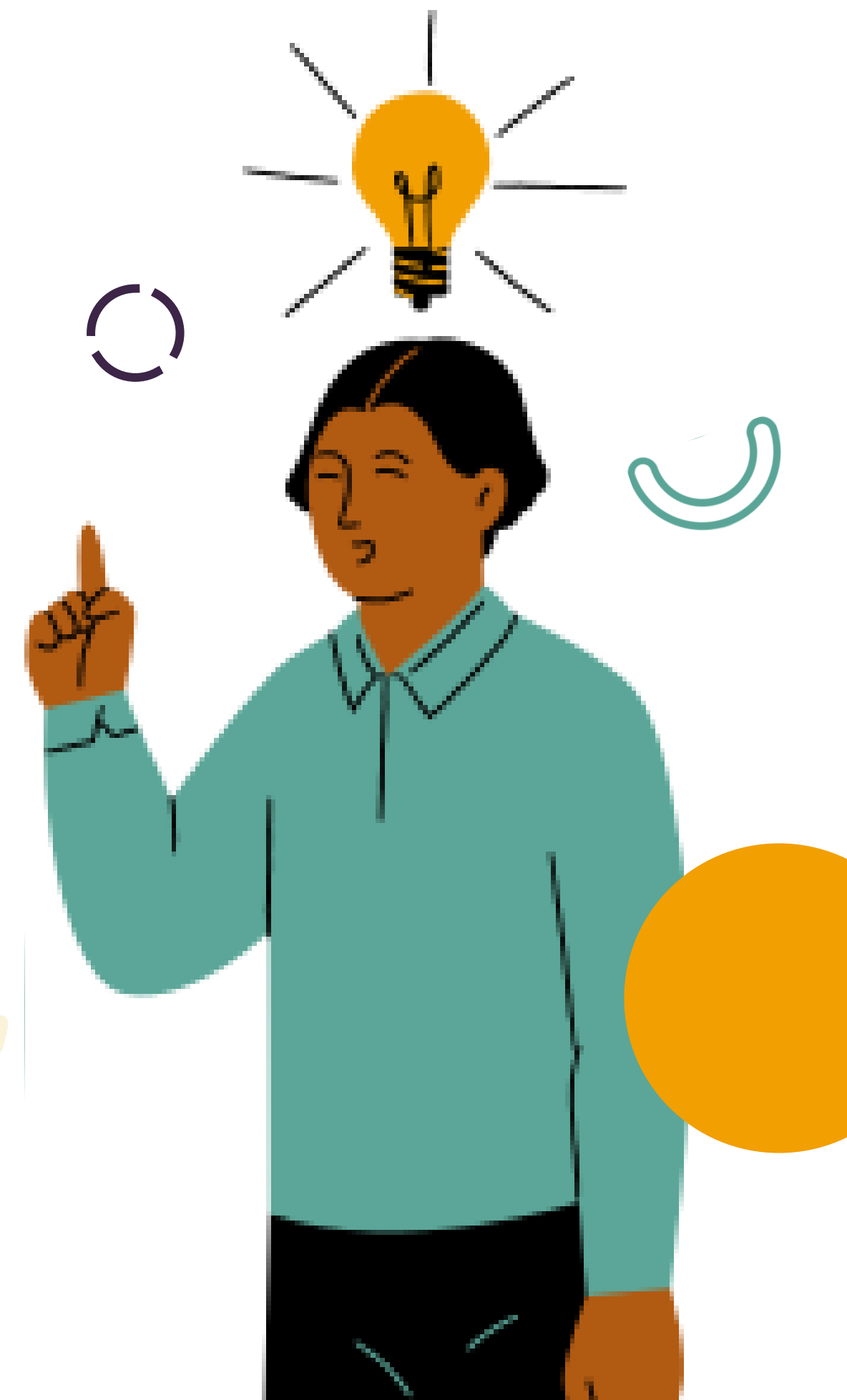
Answer: True

15. A low current ratio (less than 1) always signals poor liquidity.

Answer: False

16. The quick ratio excludes inventory because inventory is considered the least liquid asset.

Answer: True



True & False Questions

17. Liquidity ratios are typically used by investors to assess a company's risk of bankruptcy.

Answer: True



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True & False Questions



18. The cash ratio is the most stringent liquidity ratio, as it only considers cash and cash equivalents.

Answer: True

19. The cash ratio is considered the least conservative liquidity measure.

Answer: False

20. A current ratio of less than 1 indicates a company may struggle to pay off its short-term debts.

Answer: True



True & False Questions

21. A higher quick ratio is always an indicator of a company's better financial health.

Answer: False

22. The quick ratio includes inventory as part of liquid assets.

Answer: False

23. A company with a high current ratio and a low quick ratio may be overly dependent on inventory to cover its short-term liabilities.

Answer: True



Multiple Choices

1. The issuance of bonds is considered a:

- A) Source of funds
- B) Use of funds
- C) Operating activity
- D) Financing activity, but not a source of funds

Answer: A) Source of funds

Multiple Choices

2. Which of the following is NOT a *source* of funds?

- A) Profits from operations
- B) Sale of equipment
- C) Issuance of equity
- D) Increase in accounts receivable

Answer: D) Increase in accounts receivable



Multiple Choices



3. The purchase of shares in another company is a:

- A) Source of funds
- B) Use of funds
- C) Financing activity
- D) Non-cash transaction

Answer: B) Use of funds



Multiple Choices

4. Which of the following activities is an example of a *use* of funds?

- A) Borrowing money
- B) Paying interest on debt
- C) Issuing new shares
- D) Selling a subsidiary

Answer: B) Paying interest on



Multiple Choices

5. A company sells a piece of equipment and generates cash from the sale. How would this transaction appear in the *Sources and Uses of Funds Statement*?

- A) As a source of funds under investing activities
- B) As a use of funds under financing activities
- C) As a source of funds under operating activities
- D) As a use of funds under investing activities

Answer: A) As a source of funds under investing activities

Multiple Choices

6. Which of the following would be classified as a *use* of funds in a *Sources and Uses of Funds Statement*?

- A) Issuance of common stock
- B) Repayment of a loan
- C) Sale of real estate
- D) Increase in accounts payable

Answer: B) Repayment of a loan





Multiple Choices

7. The redemption (buyback) of a company's own bonds before maturity is classified as:

- A) A use of funds, as it reduces liabilities
- B) A source of funds, as it increases the company's equity
- C) A non-cash transaction
- D) An operating activity

Answer: A) A use of funds, as it reduces liabilities

Multiple Choices

8. If a company sells its stock in a publicly traded company for cash, how is this recorded in the *Sources and Uses of Funds Statement*?

- A) As a source of funds under operating activities
- B) As a use of funds under financing activities
- C) As a source of funds under investing activities
- D) As a non-cash transaction

Answer: C) As a source of funds under investing activities

Multiple Choices

9. When a company issues a new preferred stock to raise capital, the transaction would be considered:

- A) A non-cash activity
- B) A source of funds under operating activities
- C) A source of funds under financing activities
- D) A use of funds under investing activities

Answer: C) A source of funds under financing activities



Multiple Choices



10. A quick ratio of 1.5 indicates that the company has:

- a) \$1.50 in liquid assets for every \$1 of liabilities
- b) \$1.50 in total assets for every \$1 of liabilities
- c) \$1.50 in cash for every \$1 of liabilities
- d) A liquidity problem

Answer: A



Multiple Choices

11. Which of the following is NOT typically included in the calculation of the quick ratio?

- a) Cash
- b) Accounts Receivable
- c) Inventory
- d) Marketable Securities

Answer: C



Multiple Choices

12. If a company's current ratio is 0.8, this suggests that:

- a) The company can cover its current liabilities using its current assets
- b) The company has more current liabilities than current assets
- c) The company is highly liquid
- d) The company has no liquidity issues

Answer: B

Multiple Choices

13. What does a cash ratio of 1.0 mean?

- a) The company has enough cash to cover all of its current liabilities
- b) The company can cover its current liabilities with its current assets
- c) The company has no short-term debt
- d) The company has a strong working capital position

Answer: A



Multiple Choices



14. Which of the following ratios is considered the most conservative liquidity ratio?

- a) Current Ratio
- b) Quick Ratio
- c) Cash Ratio
- d) Acid-Test Ratio

Answer: C



Multiple Choices

15. A quick ratio of less than 1 suggests that a company:

- a) Has no liquidity problems
- b) Is likely to face difficulties paying off its short-term liabilities
- c) Has more liquid assets than current liabilities
- d) Can easily pay off its current liabilities without borrowing

Answer: B



Multiple Choices



16. Which of the following is true regarding the cash ratio?

- a) It includes all current assets in its calculation
- b) It measures the ability to cover current liabilities with cash and cash equivalents
- c) It is less conservative than the quick ratio
- d) It excludes both cash and accounts receivable from the calculation

Answer: B



Multiple Choices

17. Which of the following is the formula for the quick ratio?

- a) Current Assets / Current Liabilities
- b) (Current Assets - Inventory) / Current Liabilities
- c) Cash / Current Liabilities
- d) Current Assets - Current Liabilities

Answer: B



Multiple Choices

18. A current ratio greater than 1 indicates:

- a) The company has too much debt
- b) The company is in good financial health
- c) The company may have liquidity issues
- d) The company has more current liabilities than assets

Answer: B

“XYZ” company is considering making the estimated cash budget for the first six months of 2020, and the following data has been given to you in order to assist the company in preparing that budget:

The expected sales:

The sales figure during the first six months of 2020 is expected to reach the following:

January	9500
February	12000
March	22000
April	17000
May	17000
June	13500

(2) Terms of sale and collection:

❖ The sales value is collected on the basis of allowing a credit portion, the value of which is as follows:

5%	From January sales
10%	From February sales
13%	From March sales
16%	From April sales
18%	From May sales
20%	From June sales

❖ The period after collecting the value of credit sales is estimated at 60 days.

(3) Purchases and Payment Terms:

January	3821
February	15925
March	13325
April	9525
May	7020
June	6175

❖ Purchases will be paid for within 10 days from the date of purchase.

(4) Other payments:

- ❖ The value of the notes payable in December 2019 is EGP 12,600, to be paid in January, and a bank loan of EGP 3,750 is due in February, while the interest, which is 6%, is due in December.
- ❖ Creditors are owed EGP 820, to be paid in January.
- ❖ There are late workers' social premiums of EGP 412 due in January.
- ❖ The revenue tax for the previous year amounted to EGP 100, of which EGP 75 was paid in December 2022 and the rest is due on January 15, 2020.
- ❖ The commercial and industrial profits tax is EGP 5400, to be paid in four installments. The value of the installment is EGP 1,350 to be paid in March, June, September and December.

- ❖ EGP 150 is withdrawn per month as a salary for the administrator.
- ❖ There are other expense items as follows:

Payments	January	February	March	April	May	June
Salaries	1400	600	2000	1800	1800	1600
Rent	400	400	400	400	400	400
advertisements	150	400	800	600	600	400
Cleaning tools and tasks	150	200	350	350	200	150
Other payments	700	600	800	700	700	500
Total	2800	2200	4350	3850	3700	3050

- ❖ The minimum amount of cash to be kept is EGP 300 per month.
- ❖ The balance for the first January period is EGP 5080.

Required:

- 1- Preparing the company's estimated cash budget for the first six months of 2020.
- 2- Determine the company's needs for funds and your suggestions for how to manage it.

Cash budget for the period from Jan. 1 to June 30, 2020

Payments	January	February	March	April	May	June
<u>Cash receipts</u>						
Cash sales	9025	10800	19140	14280	13940	10800
Credit sales receipts	-	-	475	1200	2860	2720
(1) Total receipts	9025	10800	19615	15480	16800	13520
<u>Cash payments</u>						
Procurement	2547	11890	14190	10792	7855	6457
Notes payable	12600					
Bank Loans		3750				
Accounts payable	820					
Workers' Insurance	412					
Taxes	25		1350			1350

Management salary	150	150	150	150	150	150
Wages	1400	600	2000	1800	1800	1600
Rent	400	400	400	400	400	400
Announcements	150	400	800	600	600	400
Cleaning tools and tasks	150	200	350	350	200	150
Other Payments	700	600	800	700	700	500
(2) Total payments	19354	17990	20040	14792	11705	11007
(3) Monthly surplus or deficit	(10329)	(7190)	(425)	668	5095	2513
(4) Cash at the beginning of the term	5080	(5249)	(12439)	(12864)	(12176)	(7081)
(5) Cash at the end of the month	(5249)	(12439)	(12864)	(12176)	(7081)	(4568)
(6) Minimum cash balance	(300)	(300)	(300)	(300)	(300)	(300)
Surplus or Deficit Sentence (5+6)	(5549)	(12739)	(13164)	(12476)	(7381)	(4868)

Thank For
Your Good
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