THE FLAX CASE

The company FLAX assembles and markets a single product. You collected information necessary to work out the budget for the next period (N + 1).

The sales will approximately increase in volume by 50 %. That will make it possible to sell 3,100 units. The unit selling price is fixed at 1,800€.

The top management decided that the stock of finished products will have to be decreased by 100 units whereas raw material stocks are stable. The work-in-progress inventories are negligible.

The standard production cost is composed of 800€ raw materials and 500 € direct labor. The depreciation in the production budget is 300 K€. A new investment of 400 K€ is envisioned for the first quarter. This investment will be paid during this first quarter.

Other expenses of personnel (except production) will rise to 600 K€.
The external services will be 374 K€.
The financial expenses will be 150 K€ (based on 1,250 K€ of debt).
The profit tax rate is 34 %, the N+1 tax will be, to simplify, regarded as paid during the 4th quarter.
The customers will pay at 90 days and the suppliers will be paid at 90 days. The other expenses are paid without delay, to be distributed over four quarters (25% per quarter).
The impact of the VAT will be neglected.

The Balance sheet at January 1 of the year N + 1 arise thus (in K€):

ASSETS	K€	LIABILITIES	K€
Assets		**Owners equity**	
Gross tangible Assets	1.000	Equity capital	300
Accumulated depreciation	- 400	Accumulated profits	265
Net tangible assets	600	Profit	100
Inventories		**Financial debts**	
Raw material	200	Medium term	400
Finished goods (1)	665		
Cash assets			
Customer receivables	850	Payables	400
Cash banks	0	Overdraft (current debts)	850
TOTAL	**2.315**	**TOTAL**	**2.315**

(1) 500 units at 1.330 €

THE FLAX CASE

Knowing that external debts (financial M.T. and S.T. debts) must not increase, the FLAX Company considers a new capital increase to finance its development. It does not predict distribution of dividends based on the weak result of year N.

The activity is "linear". It is thus possible to distribute the products and the expenses in a nearly identical way. (25% per quarter)

Based on the information you collected, it is possible for you to satisfy the requests of the top executives, namely to establish:

1 the sales budget (in K€).

2 the production program (in quantities).

3 the production budget (in K€).

4 the budget of final inventories of finished products (in K€).

5 the estimated income statement N + 1.

3 the quarterly cash budget.

4 the amount of the (possible) increase in capital.

5 financial table N + 1 (estimated)

6 the estimated balance sheet at 31/12/N + 1