**Lecture 9 notes - Cash Budget /cash flow forecast [homework questions]**

**Q 1**

Mary decides to open a shop with initial capital of £10,000. She anticipates that sales for the first 3 months in 2023 will be:

1. January £10,000
2. February £11,000
3. March £12,000
4. She will allow 10% of her customers one month’s credit, everybody else will pay cash.
5. She anticipates that her monthly purchases will be 50% of sales value.
6. She will pay her creditors 60% in the month of purchase and 40% in the following month.
7. General expenses will be £500 per month.
8. Capital outlay will occur in February and March and will be £500 and £600 respectively.

**You are required to prepare a cash budget for Mary for January, February and March, 2023**

**Answer**

Mary

Cash budget for the 3 months to March 2023 [in £s]

|  |  |  |  |
| --- | --- | --- | --- |
| Months | January | February | March |
| Cash inflows |  |  |  |
| Capital | 10,000 |  |  |
| Cash sales [90% or 0.9 of current month sales] | 9,000 | 9,900 | 10,800 |
| Credit sales [10% or 0.1 of I month ago sales] | --- | 1000 | 1100 |
| Total cash inflows | 19,000 | 10,900 | 11,900 |
| Cash outflows |  |  |  |
| Cash purchases [50% of sales x 0.6] | 3,000 | 3300 | 3600 |
| Credit purchases [50% of I month ago sales x 0.4] | -- | 2000 | 2200 |
| General expenses | 500 | 500 | 500 |
| Capital outlay |  | 500 | 600 |
| Total cash outflows | 3500 | 6300 | 6900 |
| Net cash flows | 15500 | 4600 | 5000 |
| Opening balance | --- | 15500 | 20100 |
| Closing cash balance. surplus/[deficit] | 15500 | 20100 | 25100 |

**Q 2 HOMEWORK – please attempt before next lecture**

**SAP Ltd**

The following information relates to SAP Ltd, a small manufacturer. The company has a highly seasonal trade, with the bulk of sales being made at Christmas and Easter. Because SAP Ltd foresees a poor Christmas period the finance director has asked you to consider the cash flow position up to Easter (April) 2023

The balance at the bank at the beginning of January 2023 is expected to be £1,000. Details in respect of the months November 2022 to April 2023 are given below.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Nov | Dec | Jan | Feb | Mar | Apr |
|  | £ | £ | £ | £ | £ | £ |
| Sales | 28,000 | 42,000 | 30,000 | 32,000 | 45,000 | 40,000 |
| Purchases | 29,000 | 20,000 | 18,000 | 21,000 | 34,000 | 12,000 |
| Wages | 3,000 | 3,200 | 3,600 | 4,000 | 3,800 | 3,700 |
| Manufacturing overheads | 2,700 | 2,800 | 2,900 | 3,000 | 3,050 | 2,730 |
| Administration overheads | 950 | 900 | 1,100 | 1,150 | 1,200 | 1,125 |
| Selling and distribution overheads | 2,150 | 4,200 | 2,500 | 2,400 | 4,500 | 2,000 |
| Plant and machinery purchases |  |  | 8,000 |  |  |  |
| Corporation Tax |  |  | 6,000 |  |  |  |
| Dividends |  |  |  |  | 4,000 |  |
| New issue of debentures |  |  |  |  | 20,000 |  |

The following information is also available.

1. SAP Ltd takes two months credit before paying its suppliers.
2. Three-quarters of the wages are paid in the month in which they are earned, and the remaining quarter in the month following.
3. Manufacturing, administration and selling and distribution overheads are paid in full in the month following that in which overheads are incurred. Manufacturing overheads include depreciation amounting to £400 each month.
4. Plant and machinery purchases, corporation tax and dividends will be paid in the months shown. The plant and machinery are estimated to have a useful life of four years.
5. The proceeds of the new issue of debentures will be received in March 2023.
6. SAP Ltd has an agreed overdraft limit with its bank of £16,000
7. 20% of invoiced sales relate to cash transactions. 40% of credit customers pay in the month they are invoiced and the remaining 60% pay in the following month. No bad debts are expected.

**Required**

**a) Prepare for SAP Ltd a projected cash budget in columnar form for each of the months of January, February, March and April 2023 showing clearly the balance at the end of each month.**

**b) State what courses of action you think might be available to the management of SAP Ltd in respect of the company’s projected cash position.**

**Answer**

**SAP Ltd**

**Cash flow forecast / budget for the 4 months to April 2023 [£000s]**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Months** | **Jan** | **Feb** | **Mar** | **April** |
| **Cash inflows** |  |  |  |  |
| **Cash sales – 0.2 of current month** | **6.0** | **6.4** | **9.0** | **8.0** |
| **Credit sales – 0.8 x 0.4 of current month** | **9.6** | **10.24** | **14.4** | **12.8** |
| **Credit sales – 0.8 x 0.6 of previous month** | **20.16** | **14.4** | **15.36** | **21.6** |
| **Debenture issue** |  |  | **20** |  |
| **Total cash inflows** | **35.76** | **31.04** | **58.76** | **42.4** |
| **Cash outflows** |  |  |  |  |
| **Purchases – 100% of 2 months ago purchases** | **29** | **20** | **18** | **21** |
| **Wages – 0.75 of current month** | **2.7** | **3.0** | **2.85** | **2.775** |
| **Wages – 0.25 of the previous month** | **0.8** | **0.9** | **1.0** | **0.95** |
| **Manufacturing overheads less £400 for depreciation – 100% of previous month** | **2.4** | **2.5** | **2.6** | **2.65** |
| **Administration overheads - – 100% of previous month** | **0.9** | **1.1** | **1.15** | **1.2** |
| **Selling & distribution overheads - – 100% of previous month** | **4.2** | **2.5** | **2.4** | **4.5** |
| **Plant & machinery purchases** | **8** |  |  |  |
| **Taxation** | **6** |  |  |  |
| **Dividends** |  |  | **4** |  |
| **Total cash outflows** | **54** | **30.0** | **31.0** | **33.075** |
| **Net cash flows** | **[18.24]** | **1.04** | **27.76** | **9.325** |
| **Opening balance** | **1.0** | **[17.24]** | **[16.2]** | **11.56** |
| **Closing balance [(Deficits) / surplus]** | **[17.24]** | **[16.2]** | **11.56** | **20.885** |

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**Question aims**

**To test candidates’ ability to:**

**c)**