

Cash Budget Practice Question: Tinto Ltd

Tinto Ltd started its operations from 1 Jan 2013. Its budgeted sales for the next 6 months are as follows:

	Sales Revenue (Units)
January	2,000
February	2,200
March	2,200
April	2,400
May	2,400
June	2,400

The selling price per unit is expected to be £20 per unit.

All sales will be made on credit. For each monthly sales, customers pay 50% in the same month and the remaining 50% in the following month.

The direct labour cost is fixed at £10,000 per month and is paid in the same month.

Overhead costs are planned to be £8,000 each month including £3,000 for depreciation. Overhead costs are paid in the same month.

For raw material purchases, the cost of raw material is £16,000 every month and it is paid one month in arrears.

Company bought an equipment for £110,000 in Jan and payment was made in April only.

Opening cash balance at the start of Jan (1st) is £50,000.

Required:

Draw up a cash budget for the 6 months from 1 January to 30 June, with a column for each month. The budget should, among other things, show each end-of-month cash balance.