

Assignment – 4 Cash Budget

Example: 1 Prepare a cash budget from the following information for April, May & June

Month	Credit Sales (Rs.)	Credit Purchase (Rs.)	Office Expenses (Rs.)
February	45,000.00	30,000.00	8,000.00
March	55,000.00	25,000.00	7,000.00
April	60,000.00	20,000.00	7,000.00
May	60,000.00	40,000.00	9,000.00
June	65,000.00	40,000.00	9,000.00

Other Information:-

1. Opening Cash Balance is Rs. 5,000
2. Credit allowed by suppliers is two months
3. Credit allowed to customer is one month
4. Office expenses are payable in the same month
5. Dividend Rs.1000 is receivable in the same April
6. Interest Payable in May Rs.1800

Example 2: From the following data prepare the cash budget for three months i.e. April, May & June.

Month (Rs.)	Sales (Rs.)	Purchase (Rs.)	Wages (Rs.)
February	1,80,000.00	1,24,000.00	12,000.00
March	1,92,000.00	1,44,000.00	14,000.00
April	1,08,000.00	2,43,000.00	11,000.00
May	1,74,000.00	2,46,000.00	10,000.00
June	1,26,000.00	2,68,000.00	15,000.00

1. All sales are on credit basis. 50% of credit sales are realized in the month following the sales and the remaining sales in the second month following
2. Creditors are paid in the month following purchase
3. Cash in Bank on 1st April (estimated) Rs.25,000.00
4. There is no lag in the payment of wages. Payment is made in the same month in which they are incurred

Example 3 : Prasad & Company wishes to prepare cash budget for the first six months ending 30th June 2010 from the following estimated revenue & expenses

Month	Total Sales	Material	Wages	Production Exp	Selling Exp
January	1,00,000.00	1,00,000.00	20,000.00	16,000.00	4,000.00
February	1,10,000.00	70,000.00	22,000.00	16,500.00	4,500.00

March	1,40,000.00	70,000.00	23,000.00	17,000.00	4,500.00
April	1,80,000.00	1,10,000.00	23,000.00	17,500.00	5,000.00
May	1,50,000.00	1,00,000.00	20,000.00	16,000.00	4,500.00
June	2,00,000.00	1,25,000.00	25,000.00	18,000.00	6,000.00

Additional Information:-

1. Cash Balance on 1st January was Rs. 50,000.00. A new machinery is to be installed at Rs. 1,00,000.00 on credit & to be repaid in two equal installments in March & April.
2. Sales commission @5% on total sales is to be paid within a month of following actual sales
3. Rs. 60,000.00 being the amount to be received in March on issue of shares
4. Period of Credit allowed by suppliers -2 Months
5. Period of Credit allowed to customer -1 Month
6. Delay in Payments of overheads-1 Month
7. Delay in payment of wages -1/2 Month
8. Assume cash Sales to be 50% of total sales

Example: 4 From the following data prepare a cash budget for 3 months from April to June

Month (Rs.)	Sales (Rs.)	Purchase (Rs.)	Wages (Rs.)	Expenses (Rs.)
February	7,00,000.00	4,00,000.00	80,000.00	60,000.00
March	8,00,000.00	5,00,000.00	80,000.00	70,000.00
April	9,20,000.00	5,20,000.00	90,000.00	70,000.00
May	10,00,000.00	6,00,000.00	1,00,000.00	80,000.00
June	12,00,000.00	5,00,000.00	1,20,000.00	90,000.00

Additional Information:-

1. Cash in Bank on 1st April (estimated) Rs. 2,50,000.00/-
2. Period of credit allowed by supplier is two months
3. 25% of Sale is for cash and the period of credit allowed to customer for credit sale is one month
4. Delay in payment of wages and expenses in one month
5. Income Tax Rs.2,50,000.00 is to be paid in the month of June

Example: 5 XYZ Ltd. is engaged in the business of trading in plastic products. It purchases goods on credit period of 1 month but sales its goods on a credit period of 2 months. Wages are paid after a time lag of 1 month. Expenses are paid in the month in which they have been incurred. It has submitted the following estimates and asks you to prepare a cash budget for the period April 2012 to June 2012.

Month	Sales	Purchase	Wages	Expenses
Feb	100000	60000	23000	12000
March	105000	62000	25000	13000
April	120000	65000	23000	15000
May	110000	64000	27000	14000
June	125000	68000	28000	16000

The cash balance as on 1/4/12 was Rs.23000. The company has taken a loan of Rs. 500000 and interest on loan is payable @ 20% every month. The company also plans to invest Rs. 100000 in 40% debentures on 1/4/2012. Interest on debentures is receivable on a quarterly basis.

Solved Examples

Example: 1 From the following forecasts of income and expenditure, prepare a cash budget for the months Jan. to April 2011.

Months	Sales (Credit)	Purchase (Credit)	Wages	Manufacturing expenses	Administrative expenses	Selling expenses
2010 Nov.	30000	15000	3000	1150	1060	500
Dec.	35000	20000	3200	1225	1040	550
2011 Jan.	25000	15000	2500	990	1100	600
Feb.	30000	20000	3000	1050	1150	620
March	35000	22500	2400	1100	1220	570
April	40000	25000	2600	1200	1180	710

Additional information are as follows:

1. The customers are allowed a credit period of two months.
2. A dividend of \$ 10000 is payable April.
3. Capital expenditure which has to be incurred: 15th Jan. \$ 5000, we will buy a plant and in March, we will buy a building on loan and its payment will be done with in monthly installments of \$ 2000 each.
4. The creditor is allowing a credit of 2 months.
5. Wages are paid on the 1st of the next months.

6. Lag in payment of other expenses is one month.

7. Balance of cash in hand on 1st Jan. 2011 is \$ 15000.

Particular	Jan	Feb	March	April
Opening Cash	15000	18985	28795	30975
Receipts:				
Cash realized from customers	30000	35000	25000	30000
Total Cash Receipts	45000	53985	53795	60975
Payment:				
Payment to Creditors	15000	20000	15000	20000
Wages	3200	2500	3000	2400
Manufacturing Exp	1225	990	1050	1100
Admin Exp	1040	1100	1150	1220
Selling Exp	550	600	620	570
Dividend				10000
Purchase of plant	5000			
Installment of Building			2000	2000
Total Payment	26015	25190	22820	37290
Closing Cash Balance	18985	28795	30975	23685

Example: 2 from the following information prepare cash budget for the period April to September.

A. The estimated sales and expenses were as under

	Feb	Mar	April	May	June	July	Aug	Sept
Sales	180000	200000	220000	210000	225000	240000	230000	250000
Salaries	15500	15500	15500	15500	17000	17000	18500	18500

B. 20% of the sales are on cash basis and the balance on credit. 50% of the credit sales are collected in the next month and the balance 50% in the following.

C. Purchases are 75% of the month's sales. Purchases are made 1 month in advance on credit. The credit period of purchase is 2 months.

D. General Expenses incurred are 125% of the monthly salary.

E. Salaries are to be paid at a time lag of 1 month. And expenses at a time lag of half month.

F. Bonus of Rs. 15000 is to be paid to the employees in August.

G. Cash Balance as on 31st April was Rs. 33000.

Answer

Particular	April	May	June	July	Aug	Sept
Opening Cash	33000	44125	54250	77937	92937	90749
Receipts:						
Cash Sales	44000	42000	45000	48000	46000	50000
Receipt from Debtors after 1 Month	80000	88000	84000	90000	96000	92000
Receipt from Debtors	72000	80000	88000	84000	90000	96000

after 2 Month							
Total Receipt	229000	254125	271250	299937	324937	328749	
Payment:							
Payment to creditors	150000	165000	157500	168750	180000	172500	
General Expenses	19375	19375	20313	21250	22188	23125	
Salaries	15500	15500	15500	17000	17000	18500	
Bonus Paid					15000		
Total Payment	184875	199875	193313	207000	234188	214125	
Closing Cash Balance	44125	54250	77937	92937	90749	114624	

Working Note:

1. Sales

Particular	Feb	March	April	May	June	July	Aug	Sept
Cash Sales (20%)	36000	40000	44000	42000	45000	48000	46000	50000
Credit Sales (80%)	144000	160000	176000	168000	180000	192000	184000	200000
50% of Credit Sales	72000	80000	88000	84000	90000	96000	92000	100000

2. Purchases

Particular	Feb	March	April	May	June	July	Aug	Sept
Sales	180000	200000	220000	210000	225000	240000	230000	250000
75% of Sales	135000	150000	165000	157500	168750	180000	172500	187500

3. General Expenses

Particular	Feb	March	April	May	June	July	Aug	Sept
Salaries	15500	15500	15500	15500	17000	17000	18500	18500
125% Exp	19375	19375	19375	19375	21250	21250	23125	23125
Half Month Exp	9687.5	9687.5	9687.5	9687.5	10625	10625	11562.5	11562.5

Example 3:

Krishna Enterprise deals in a single product X. The per unit cost structure is as follows.

	Rs.
Material	400
Labour	150
Production Expenses	150
General Expenses	<u>100</u>
Total Cost	800
Profit @ 25% of Cost	<u>200</u>
Sales Price	1000

The estimated sales in units is as under

May	June	July	Aug	Sept	Oct
200	220	210	190	225	230

- 30% of the sales are on cash basis and the balance on credit basis. Debtors are allowed a credit period of 2 months
- 10% materials are purchased on cash basis. Materials are purchased one month in advance. Credit period allowed by the suppliers is 3 months
- Wages are paid on 5th of next month
- General Expenses include a fixed rent cost of Rs.5000 per month, which is paid one month in advance. The remaining general expenses are paid in next month in which they are incurred
- The company has taken a loan of Rs. 500000 and monthly installment of 30000 are payable at the beginning of each month
- You are asked to prepare a cash budget for the period July to Sept after considering an opening balance of Rs. 40000

Revenue Statement

Particular	Per Unit	May	June	July	Aug	Sept	Oct
No of Units		200	220	210	190	225	230
Material	400	80000	88000	84000	76000	90000	92000
Labour	150	30000	33000	31500	28500	33750	34500
Production Exp	150	30000	33000	31500	28500	33750	34500
General Exp	100	20000	22000	21000	19000	22500	23000
Total Cost	800	160000	176000	168000	152000	180000	184000
Profit@ 25% of Cost	200	40000	44000	42000	38000	45000	46000
Sales	1000	200000	220000	210000	190000	225000	230000

Cash Budget of Krishna Enterprise for the period July 2012 to Sept 2012

Particular	July	Aug	Sept
Opening Cash	40000	78400	118700
Receipts:			
Cash Sales (30%)	63000	57000	67500
Receipts from Debtors	140000	154000	147000
Total Receipts	203000	211000	214500
Payment:			
10% Cash Purchase of Material (1 Month Advance)	7600	9000	9200
90% Payment to creditors	72000	79200	75600
Wages	33000	31500	28500
Rent	5000	5000	5000
General Expenses	17000	16000	14000
Loan Installment	30000	30000	30000
Total Payment	164600	170700	162300
Closing Balance	78400	118700	170900

