Cash Budgets

A budget is a forecast statement in financial terms of management's plans over a future period of time.

A cash budget is the calculation of the money coming in and going out of the business for a specified future period.

Money comes in from sales, for cash or from debtors, through credit sales, loans, sale of fixed assets and any other sources of cash.

Money goes out for cash purchases, payment to creditors for goods on credit, repayment of loans, cash expenses, purchase of fixed assets and any other expenditure the business may have.

A cash budget is cumulative in that the balance from one month is carried forward to the other month.

The cash budget ignores none-cash items, such as depreciation, which is a loss of value of fixed asset which does not cause a loss of cash.

Format of a Cash Budget:

Months	**January**	**February**	**March**	**April**
Receipts				
Cash sales	X			
Debtors	X			
Loan	X			
Total receipts	**Y**			
Payments				
Cash purchases	X			
Creditors	X			
Fixed assets	X			
Expenses	X			
Less total payments	**Z**			
Net receipts/payments	W			
Add Opening balance	B			
Closing balance	**C**			

Y is equal to the total of all the receipts.
Z is equal to the total of all the payments.
W is equal to Y minus Z.
C is equal to W plus B, which is the closing balance for that month, and this becomes the opening balance in the next month.

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So, the cash budget format can be summarised as follows:
The total of all the receipts, less the total of all the payments equals the net receipt, if the answer is positive or net payment, if the answer is negative. This net receipt or payment is then added to the opening balance to give the closing balance, which becomes the opening balance in the next month.

The opening balance represents the figure for cash or bank at the end of last month.

Example:

Months	**Sales**	**Purchases**	**Expenses**	**Purchase of fixed assets**	**Closing balance**
December					£15,000
January	£15,000	£9,000	£2,000		
February	£18,000	£12,000	£5,000	£20,000	
March	£25,000	£12,000	£7,000		
April	£25,000	£15,000	£6,000		

All sales and purchases are for cash.

The business has borrowed some money.

Cash budget for four months ended 30th April:

Months	**January**	**February**	**March**	**April**
Receipts				
Cash sales	£15,000.00	£18,000.00	£25,000.00	£25,000.00
Loan	£10,000.00			
Total receipts	£25,000.00	£18,000.00	£25,000.00	£25,000.00
Payments				
Cash purchases	9,000.00	12,000.00	12,000.00	15,000.00
Fixed assets	2,000.00	20,000.00	7,000.00	6,000.00
Expenses		5,000.00		
Less total payments	£11,000.00	£37,000.00	£19,000.00	£21,000.00
Net receipt/payment	£14,000.00	£19,000.00	£6,000.00	£4,000.00
Add opening balance	£15,000.00	£29,000.00	£10,000.00	£16,000.00
Closing balance	£29,000.00	£10,000.00	£16,000.00	£20,000.00

Class Work
A company produces only one product.
1. It sells for £80 each.
2. Total variable cost is £30. This is made up of:
   Materials £15, Labour £10 and Overheads £5.
3. Fixed costs are £16,000 per month payable one month in arrears.
4. Sales in units are:

April	May	June
1500	1800	2000

5. Productions in units are:

April	May	June
1700	1900	1900

6. Labour costs are paid in the month they are incurred.
7. Suppliers of materials give one-month credit.
8. The variable overheads are paid for in the month following production.
9. Sales are 50% for cash and 50% on one-month credit.
10. Opening balance at the beginning of April is £50,000.

Prepare the cash budget for the April to June 2002.

For this question, the individual cost for materials, labour and overheads must be calculated. This is done by taking the number of units produced in each month and multiplied by the cost per unit.
For example, the material cost for April will be:
1700 X £15 = £25,500

It will be the same calculation for labour and overheads for each month.
The sales will be the number of units sold multiplied by the selling price per unit.
1500 X £80 = £120,000

I will do this with you.

Cash budget for the three months ending June 2002:

	April	**May**	**June**
Receipts			
Sales			
Cash	60000	72000	80000
Debtors		60000	72000
Total Receipts	**60000**	**132000**	**152000**
Payments			
Materials		25500	28500
Labour	17000	19000	19000
Overheads		8500	9500
Fixed Overheads	16000	16000	16000
Total Payments	**33000**	**69000**	**73000**

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Net receipt/payment	27000	63000	79000
Add opening balance	50000	77000	140000
Closing balance	**77000**	**140000**	**219000**

Example:
The following is the budgeted data of a small business.

1) Sales are expected to be as follows:

December	January	February	March
£30,000	£35,000	£40,000	£50,000

   The terms of the sales are 20% cash, the rest, one-month credit given to customers.
2) Purchases are expected to be £10000 each month with one–month's credit given from suppliers.
3) Overheads are: January £5,000, February £6,500, March £6,500
   paid for in the month.
4) Fixed overheads are: £3,000 £3,000 £3,000
   paid for one month in arrears
5) Wages are: £5,000 £7,000 £9,000
   paid in the month.
6) The bank balance at the end of December was £20,000.

Prepare the cash budget for three month ended 31st March:

	January	**February**	**March**
Receipts Sales : Cash Debtors	 £3,500 £27,000	 £4,000 £31,500	 £5,000 £36,000
Total Receipts	£30,500	£35,500	£41,000
Payments: Purchases Overheads Fixed Overheads Wages	 £10,000 £5,000 £3,000 £5,000	 £10,000 £6,500 £3,000 £7,000	 £10,000 £6,500 £3,000 £9,000
Total Payments	£23,000	£26,500	£12,500
Net receipt: **Add opening balance:**	£6,500 £20,000	£9,000 £26,500	£12,500 £35,500
Closing balance	**£26,500**	**£35,500**	**£48,000**

This business is in a good cash position; it has increased its opening balance from £20,000 to £ 48,000 in three months.