Assignment

1. **cash budget**

|  |  |  |  |
| --- | --- | --- | --- |
| **A)      cash budget** |  |  |  |
|  | **October** | **November** | **December** |
| Cash Balance | 5,000 | 6,600 |  |
| Cash sales (40% of sales) | 10000 | 12000 | 10400 |
|  |  |  |  |
| Cash collected (A/R |  |  |  |
| For August | 6600 |  |  |
| For September | 4500 | 4500 |  |
| For October |  | 7500 | 7500 |
| For November |  |  | 9000 |
| **Total Cash Receipts(A)** | **26,100** | **30,600** | **26,900** |
|  |  |  |  |
| Cash Payments : |  |  |  |
| Payments made for Purchases | 19500 | 29000 | 20000 |
|  |  |  |  |
| total cash payments (B) | 19500 | 29000 | 20000 |
| Excess of cash Receipts over cash pmts | 6,600 | 1,600 | 6,900 |
| Loans and OD required | 0 | 0 | 0 |
| Ending Cash Balance | 6,600 | 1,600 | 6,900 |

**Note:**

Depreciation being a non-cash expense is not Included in the Cash budget.

1. **Accounts Receivable**

The estimation of Accounts Receivable at the end of December and the cash received against credit sales are shown as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Estimation of Cash sales and Accounts Receivables etc.** | | | |  |  |
|  | August | September | October | November | December |
| Sales | 22000 | 15000 | 25000 | 30000 | 26000 |
| Cash sales (40%) | 8800 | 6000 | 10000 | 12000 | 10400 |
| Credit Sales: | 13200 | 9000 | 15000 | 18000 | 15600 |
| cash collection of A/R(Aug) |  | 6600 | 6600 |  |  |
| cash collection of A/R(sept) |  |  | 4500 | 4500 |  |
| cash collection of A/R(October) |  |  |  | 7500 | 7500 |
| cash collection of A/R(November) |  |  |  |  | 9000 |
| Total Cash collected (A/R) |  |  | **11100** | **12000** | **16500** |
|  |  |  |  |  |  |
| Balance (A/R) for November |  |  |  |  | 9000 |
| Balance (A/R) for December |  |  |  |  | 15600 |
| **Total Balance of A/R (December 31)** |  |  |  |  | **24600** |

So, there is a $24,600 in A/R account.

1. Three Advantages of Preparing a cash Budget

1.cash budget is able to show the amount of cash required for a particular period.

Cash budget needs to be prepared to know in advance the amount of cash needed to undertake the business operations for the given period and if there is any shortfall- how the shortfall can be plugged. As the managers are aware the same helps in reducing costs of arranging overdraft and taking short term loans.

2. it helps in profit planning and credit policy setting

Cash budget would help in the determination of credit policy to be undertaken and how the credit sales would be optimally recovered. Offering credit and extending credit periods usually increases sales. Increased sales both leads to increased profitability and better cash balances at the end of the period. Similarly, if the cash flows are lower, the management might go for discount price sales to increase revenue.

3. cash budgets helps in the long-term financial planning

Cash Budgets are prepared to show how the management can make the best utilization of the cash balances and if there are excess cash flow-how the same can be invested to earn extra revenue in the form of interest etc. further the cash budget would show if the cash flows are good enough to fund the expansionary activities and make large scale investments. If the cash flows are short adequate capital structure planning (both debt issues and equity ) can be considered to raise the necessary funds. Companies which are short of cash flows can take steps such as reducing credit sales, lowering costs, reducing payment of dividends, collecting credit early and making plans to reschedule debt repayment etc (ANTHONY A ATKINSON, 2012).

# Bibliography

ANTHONY A ATKINSON, R. S. K., 2012. *MANAGEMENT ACCOUNTING.* CHICAGO: PEARSON.

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