

Dadley Corporation

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Introduction

Dadley Corporation, a rapidly expanding photocopier manufacturer is currently planning its next year. The sales budget was prepared by the director of marketing. Estimated sales are expected to be met or exceeded. The budgeted sales figures will help to plan for other corporate departments. I, as assistant chief accountant have been asked to prepare a cash budget for the company.

A budget is a quantitative expression of a short – term future period plan of action for the company. It includes financial and non – financial information of the plan. Every business has more than one budget. Each one relates to a specific aspect of the business. There are three types of budgets: master budget, operating budget and financial budget. In this report cash budget, one of the financial budgets will be prepared.

Purpose of report

The purpose of this report is, according to Dadley Corporation estimated sales budget to prepare a cash budget by month and in total for the second quarter. It will show how cash flows in and out of business. Then, to discuss importance of cash budgeting for a rapidly expanding company such as Dadley Corporation.

Preparation of Cash budget

To develop a cash budget, firstly we need to know the forecasted budgeted sales for the coming year. Estimated figures are shown in table1. Months colored in red, represent the second quarter of the year. The cash budget will be based on April, May and June.

Table1.

Budgeted sales in		Budgeted sales in	
January	1 800 000	July	3 000 000
February	2 000 000	August	3 000 000
March	1 800 000	September	3 200 000
April	2 200 000	October	3 200 000
May	2 500 000	November	3 000 000
June	2 800 000	December	3 400 000

Secondly, the information provided by operating manager must be analyzed.

1. Debts received. 60% of billings are collected in the month after the sale and 40% in the second month after the sale. The table below shows all the necessary calculations to find debts received for April, May and June.

Table2.

Month	Sales		February	March	April	May	June
January	1800000		1080000	720000			
February	2000000			1200000	800000		
March	1800000				1080000	720000	
April	2200000					1320000	880000
May	2500000						1500000
June	2800000						
		Total			1880000	2040000	2380000

2. Cost of raw materials. Cost of it equals to 50% of sales.60% of the raw materials are received one month prior to sale and 40%during the month of sale.

Calculations are shown below.

Table3.

Month	Cost	December	January	February	March	April	May	June
January	900000	540000	360000					
February	1000000		600000	400000				
March	900000			540000	360000			
April	1100000				660000	440000		
May	1250000					750000	500000	
June	1400000						840000	560000
July	1500000							900000
60%	prior to sale				Total	1190000	1340000	1460000
40%	during the month of sale							

3. Payments to creditors. The costs of raw materials calculated above were used to prepare the table of payments. It is known that 80% of creditors are paid by Dadley one month after receipt of the purchased materials and other 20% are paid the second month after receipt.

Table4.

Month	Cost	January	February	March	April	May	June
December	540000	432000	108000				
January	960000		768000	192000			
February	940000			752000	188000		
March	1020000				816000	204000	
April	1190000					952000	238000
May	1340000						1072000
		Total			1004000	1156000	1310000

4. Hourly wages. It depends on sales volume and is estimated to be 20% of the current month's sales. Wages are paid in the month incurred.

Table5.

Hourly wages		20% current month sales		
Month	Sales	April	May	June
April	2200000		500000	560000
May	2500000	440000		
June	2800000			

5. General & Administrative expenses. Total expenses are estimated to be 2 640 000 for the year. All of these expenses are incurred evenly through the year except property taxes which are paid in four equal installments in the last month of each quarter. Table 6. Represents how these costs are spread over the second quarter.

Table 6

Expenses	Total cost	April	May	June
salaries	480000	40000	40000	40000
promotions	660000	55000	55000	55000
property taxes	240000			60000
insurance	360000	30000	30000	30000
utilities	300000	25000	25000	25000

6. Corporation tax. The tax rate is 40%. Payments are made in the first month of each quarter based on the profit for the prior quarter. Estimated Dadleys net profit for the first quarter is 612 000. Then, corporation tax payment for the second Quarter that must be paid in April equals to 244800 ($612\ 000 \times 40\%$).
7. Equipment & Warehouse facilities. Purchases of it are budgeted at 28 000 for April and 324 000 for May.
8. Interest on borrowed funds. As Dadley has a policy of maintaining an end – of – month cash balance of 100 000, it borrows or invests monthly, as needed to maintain this balance. Interest expense on borrowed funds for second quarter is budgeted to be 8 000 and to be paid in June.

After considering and calculating the entire points cash budget can be prepared successfully. In the next step of report a cash budget is going to be presented. Cash budget for Dadley Corporation prepared by month and in total for the second quarter.

Dadley cash budget for the second quarter

Period	April	May	June	Total
1. Budgeted sales	2200000	2500000	2800000	7500000
2. Cash Balance beginning	100000	100000	100000	300000
Cash Receipts				
3. 60 % of Sales collected in the month after the sale	1080000	1320000	1500000	3900000
4. 40% of Sales collected in the second month after the sale	800000	720000	880000	2400000
5. Total Cash Receipts	1980000	2140000	2480000	6600000
Cash disbursements				
6. Raw materials (50% of Sales)	1100000	1250000	1400000	3750000
7. 60% raw materials received a month prior to sale	750000	840000	900000	1740000
8. 40% raw materials received during the month of sale	440000	500000	560000	1500000
9. Total raw materials	1190000	1340000	1460000	3990000
10. Credit payment				
11. 80% a month after receiving receipt	816000	952000	1072000	2840000
12. 20% two months after receiving receipt	188000	204000	238000	630000
13. Total payments to creditors	1004000	1156000	1310000	3470000
14. Hourly Wages	440000	500000	560000	1500000
15. General & Administrative expenses				
16. Salaries	40000	40000	40000	120000
17. Promotion	55000	55000	55000	165000
18. Property taxes			60000	60000
19. Insurance	30000	30000	30000	90000
20. Utilities	25000	25000	25000	75000
21. Corporation taxes	244800			244800
22. Equipment & Facilities	28000	324000		352000
23. Interest			8000	8000
24. Total Cash disbursements	1866800	2130000	2088000	6084800
25. Ending Cash Balance	113200	10000	392000	515200
26. Borrowings	13200		292000	305200
27. Investments		90000		90000
28. Final Closing Balance	100000	100000	100000	300000

Importance of budgeting

In the last part of the report, importance of cash budgeting is discussed.

To begin with, every business needs a careful handling of its expenditures. Cash budget is a commonly used technique for planning expected cash intake and spending. It is a management plan for the most important factor of a company's viability— its cash position.

The cash budget starts with the beginning cash balance to which is added the cash inflows to get cash available. Cash outflows for the period are then subtracted to calculate the cash balance before investing or borrowing to maintain a final closing balance.

The main aim of cash budget is to show cash flows in and out of the company. It, then helps planning short – term credit needs, determines expenses and ability to pay debts. A forward – looking perspective enables management to be in a better position to exploit opportunities, indicate potential problems that could arise in the future and allows taking appropriate actions.

By most financial institutions every business is required to prepare cash budget before making expenditures on new assets or expenditures associated with expansion. Banks and other creditors are more likely to grant loans if the loan request is supported by the cash plan. Otherwise, there is no certainty that company will be able to repay the loan. In any firm, but especially a rapidly expanding firm, there are timing differences between outflows and inflows of cash. If receipts and disbursements are not monitored, the firm could find itself with a growing short-term debt to meet payments and the minimum cash balance.

Conclusion

In this report, Dadley corporation financial data was analyzed to prepare a cash budget for the second quarter of the year. The budget also summarizes the total of April, May and June. It will help managers to plan the expenditures of the company, to fit in estimated cash resources. The report also discussed the main aims of cash budget. And the main aim of it is to estimate business cash inflows and outflows.