

Additional exercise

Produce a cash flow forecast, projected profit and loss account and year end balance sheet for this manufacturing business, based upon the information provided. Ignore VAT.

1. The company is set up with share capital of £90,000 and a term bank loan of £24,000 to purchase machinery and vehicles. This must be repaid through regular monthly payments of £450, starting in January.
2. Machines, vehicles and other capital costs are estimated to be £24,300. This must be paid in January.
3. Projected monthly sales are given below. It is expected that cash will be collected two months later. Projected monthly stock purchases and the stock used to achieve the projected sales are also given. This allows us to calculate the opening and closing stock levels. Payment for stock purchased is one month later.

	£ Sales	£ Purchases	£ Stock Used	£ Closing stock
January	19,800	22,722	7,722	15,000
February	26,700	12,447	10,947	16,500
March	25,500	11,790	9,690	18,600
April	27,000	13,740	11,340	21,000
May	18,900	9,060	7,560	22,500
June	40,500	17,394	15,594	24,300
July	48,600	22,869	20,169	27,000
August	38,100	21,429	15,429	33,000
September	24,300	16,497	9,597	39,900
October	58,800	30,720	23,520	47,100
November	60,000	29,400	24,600	51,900
December	59,100	23,352	22,752	52,500
	<u>447,300</u>	<u>231,420</u>	<u>178,920</u>	

4. Gross annual wages (including all employer's additional payments) for the five employees are estimated at £108,144. January wages will be £6,471, thereafter the monthly wage bill rises to £9,243.
5. Annual administration salaries are estimated at £10,512 (£876 per month).
6. The owner-director proposes to pay himself an annual salary of £46,404 (£3,867 per month), including employer's additional payments. There is a single pension payment of £1,500 due in June.
7. Rent is £2,889 per quarter, payable quarterly in advance. Rates are £1,155 per month starting in April.
8. Light and heat is payable one month after the quarter end at an estimated £2,100 per quarter. The first bill for a £600 deposit is expected in January and will be paid in February.
9. Postal charges are estimated at £60 per month. Telephone charges are estimated at £720 per quarter and is payable in the month following the quarter.

10. Insurance is estimated at £3,600 per annum, payable in advance.
11. Advertising costs are estimated at £1,293 per quarter, payable in advance.
12. Repair costs of £860 are expected to be paid in June.
13. Commission of £186 will be due monthly.
14. Travel costs are estimated at £200 per month, payable one month in arrears.
15. Lease costs are estimated at £174 per month, printing and stationery costs at £492 and other sundry costs at £288, all paid in the month in question.
16. Legal and audit costs of £3,450 are expected April and £1,725 in July.
17. The bank applies interest and charges on a quarterly basis. Banks charges will be £375 a quarter. It is estimated that interest payments of £807 and £1,086 will be payable in September and December, based upon the average monthly opening overdraft.
18. Bad debts for the year are estimated to be £4,500 for the year.
19. The accountant calculates depreciation to be £6,450 for the year.

ANSWER

Projected Profit and Loss Account for the year

Sales	£ 447,300
Less cost of sales	
Materials used	178,920
Production wages	108,144
	<u>287,064</u>
Gross profit	<u>160,236</u>
Overheads	
Directors' remuneration	46,404
Pension contributions	1,500
Admin salaries	10,512
Telephone and postage	3,600
Travel	2,400
Printing and stationery	5,904
Legal and audit	5,175
Rent and rates	21,951
Light and heat	8,400
Insurance	3,600
Depreciation	6,450
Lease costs	2,088
Repairs	860
Advertising	5,172
Bad debts	4,500
Commission	2,232
Sundries	3,456
Bank interest	1,893
Bank charges	1,500
Total overheads	<u>137,597</u>
Profit before tax	<u>22,639</u>

Cash Flow Forecast

	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Receipts													
Shares	90,000												90,000
Loans	24,000												24,000
From debtors			19,800	26,700	25,500	27,000	18,900	40,500	48,600	38,100	24,300	58,800	328,200
Total receipts	114,000		19,800	26,700	25,500	27,000	18,900	40,500	48,600	38,100	24,300	58,800	442,200
Payments													
Materials		22,722	12,447	11,790	13,740	9,060	17,394	22,869	21,429	16,497	30,720	29,400	208,068
Wages	6,471	9,243	9,243	9,243	9,243	9,243	9,243	9,243	9,243	9,243	9,243	9,243	108,144
Directors' remuneration	3,867	3,867	3,867	3,867	3,867	3,867	3,867	3,867	3,867	3,867	3,867	3,867	46,404
Pension contributions						1,500							1,500
Admin salaries	876	876	876	876	876	876	876	876	876	876	876	876	10,512
Telephone & postage	60	60	60	780	60	60	780	60	60	780	60	60	2,880
Travel		200	200	200	200	200	200	200	200	200	200	200	2,200
Printing & stationery	492	492	492	492	492	492	492	492	492	492	492	492	5,904
Legal and audit				3,450			1,725						5,175
Rent and rates	2,889			4,044	1,155	1,155	4,044	1,155	1,155	4,044	1,155	1,155	21,951
Light and heat		600		2,100			2,100			2,100			6,900
Insurance	3,600												3,600
Lease costs	174	174	174	174	174	174	174	174	174	174	174	174	2,088
Repairs						860							860
Advertising	1,293			1,293			1,293			1,293			5,172
Commission	186	186	186	186	186	186	186	186	186	186	186	186	2,232
Sundries	288	288	288	288	288	288	288	288	288	288	288	288	3,456
Fixed assets	24,300												24,300
Bank interest									807			1,086	1,893
Bank charges			375			375			375			375	1,500
Loan repayments	450	450	450	450	450	450	450	450	450	450	450	450	5,400
Total payments	44,946	39,158	28,658	39,233	30,731	28,786	43,112	39,860	39,602	40,490	47,711	47,852	470,139

Cash flow	69,054	-39,158	-8,858	-12,533	-5,231	-1,786	-24,212	640	8,998	-2,390	-23,411	10,948	-27,939
Opening cash balance	-	69,054	29,896	21,038	8,505	3,274	1,488	-22,724	-22,084	-13,086	-15,476	-38,874	-
Closing cash balance	69,054	29,896	21,038	8,505	3,274	1,488	-22,724	-22,084	-13,086	-15,476	-38,874	-27,939	-27,939

Projected Balance Sheet

	£	£
Fixed Assets	24,300	
- depreciation	<u>-6,450</u>	17,850
Current assets		
Stocks	52,500	
Debtors	<u>119,100</u>	
	<u>171,600</u>	
Current liabilities		
Trade creditors	23,352	
Sundry creditors*	6,920	
Bank overdraft	27,939	
Term Loan	<u>18,600</u>	
	<u>76,811</u>	
Net current assets		94,789
Net assets		<u>112,639</u>
Shareholder's funds		
Share capital		90,000
Reserves (profit)		<u>22,639</u>
		<u>112,639</u>

* Sundry creditors comprise:

Bad debt provision	£4,500
Light and heat	1,500
Travel	200
Telephone	<u>720</u>
Total	<u>£6,920</u>