Cash, financial and flexible budgets

MODULE 3 | PART B.3 | STUDENT COMPANION

The **financial budget** = budgeted income statement + budgeted balance sheet + cash budget + capital expenditure budget. The income statement measures profit but ignores timing; the cash budget shows when cash comes in and goes out.

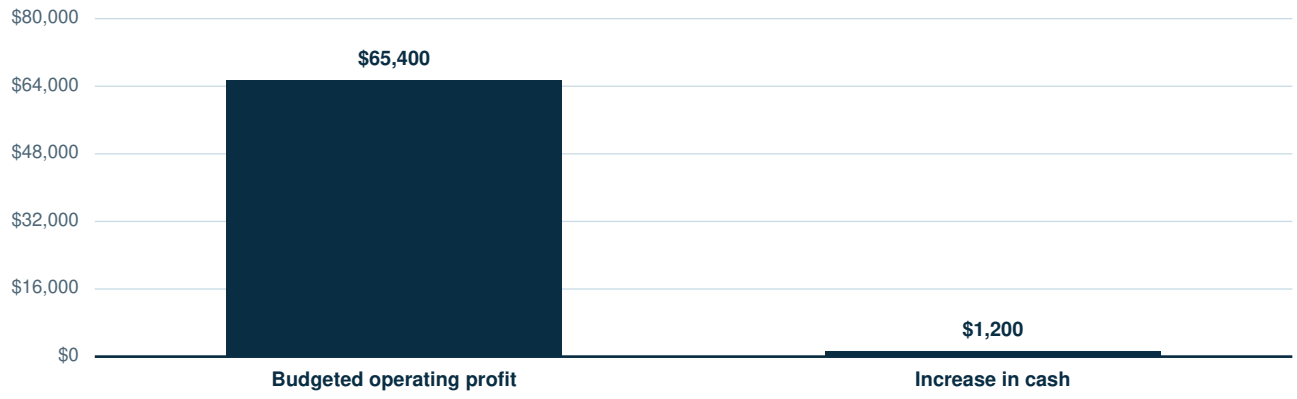
The cash budget

Blue Wren: cash budget for July	$
Opening cash balance	25,000
Add: collections - 40% of July sales ($288,000)	115,200
Add: collections - 60% of June sales ($270,000)	162,000
Cash available	302,200
Less: steel purchased in June (paid in July)	(30,000)
Less: wages	(70,000)
Less: variable overhead	(20,000)
Less: fixed overhead excluding $8,000 depreciation	(32,000)
Less: period costs excluding $5,000 depreciation	(64,000)
Less: new machine (capital expenditure budget)	(60,000)
Closing cash before financing	26,200
Minimum balance policy	40,000
Short-term finance to arrange (rounded)	15,000

Building it: a schedule of collections (how much of each month's sales is collected that month and later), a schedule of payments for purchases, then other inflows and outflows (interest, dividends, asset sales, tax, capital spending). Leave out non-cash items such as depreciation.

Profit is not cash

July, Blue Wren Drinkware (imagined)



Capital spending, inventory build-up and credit sales explain the gap

Linking the financial budgets

Budget	Draws on
Budgeted income statement	All operating budgets; adds items such as income tax
Cash budget	Collections and payments schedules; capital expenditure budget; financing
Budgeted balance sheet	Profit from the income statement; closing inventories; closing cash from the cash budget
Capital expenditure budget	Planned long-term assets for next year and beyond

Decentralised organisations build budgets from the bottom up: each store or region prepares its sales budget; state managers combine them; head office adds online sales. Each team answers only for its own revenue budget.

A flexible budget for planning

Flexible overhead budget	1,800 hours	2,000 hours	2,200 hours
Variable overhead ($10 per labour hour)	$18,000	$20,000	$22,000
Fixed overhead	$40,000	$40,000	$40,000
Total manufacturing overhead	$58,000	$60,000	$62,000

Only the variable part moves with activity

Flexible budgets for planning show revenues and costs at several activity levels, giving worst, best and most likely cases and a reference point if activity differs from plan. (In Part C, flexing is used for control.)

Practice questions

MODULE 3 | PART B.3 | TRY THESE BEFORE THE WORKED ANSWERS

A **garden supplies wholesaler (imagined)** has sales of: November $80,000; December $90,000; January $100,000; February $120,000; March $150,000. It collects 30% in the month of sale, 50% the following month and 18% the month after; 2% is never collected.

Question 1 - Schedule of collections

Collections	January	February	March
30% of this month's sales			
50% of last month's sales			
18% of the sales two months ago			
Total collections			

Question 2 - March cash budget

Item	$
Opening cash	12,000
Collections (from Question 1)	
Payments to suppliers	(70,000)
Wages	(30,000)
Rent	(8,000)
Other cash costs	(9,000)
New equipment	(25,000)
Depreciation for the month: $3,000	?
Closing cash before financing	
Finance needed to keep a minimum balance of $10,000	

Question 3 - Flexible delivery cost budget

Kilometres driven	8,000	10,000	12,000
Variable cost ($1.20 per km)			
Fixed cost (vans and insurance)	$9,000	$9,000	$9,000
Total delivery cost			

Worked answers

MODULE 3 | PART B.3 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Schedule of collections

Collections	January	February	March
30% of this month	$30,000	$36,000	$45,000
50% of last month	$45,000	$50,000	$60,000
18% of two months ago	$14,400	$16,200	$18,000
Total	$89,400	$102,200	$123,000

Question 2 - March cash budget

Item	$
Opening cash	12,000
Collections	123,000
Payments (70,000 + 30,000 + 8,000 + 9,000 + 25,000)	(142,000)
Depreciation	Excluded - not a cash flow
Closing cash before financing	(7,000)
Finance needed (to reach $10,000)	17,000

Question 3 - Flexible delivery cost budget

Kilometres	8,000	10,000	12,000
Variable ($1.20/km)	$9,600	$12,000	$14,400
Fixed	$9,000	$9,000	$9,000
Total	$18,600	$21,000	$23,400