**Question 9**

Mackie is to start up in business producing and selling plastic waste bins.

The following estimates relate to the first 4 months of business, ie January to April Year 6.

1. He will start with £30,000 of cash and cash equivalents (a business bank account).
2. In addition, the bank is to lend him £40,000 in January.
3. Factory rent will cost £30,000 per annum, payable quarterly in advance.
4. Production in January will be 5,000 units, rising by 1,000 units in each successive month.
5. Sales will be 1,000 units in January and will double in each successive month.
6. The selling price per unit will be £8, 50% of sales revenue will be on a cash basis and 50% on 1 month’s credit.
7. Material will be purchased for £4 per unit in the same month as production and paid for 1 month later.
8. Labour costs will be £2 per unit and will be paid in the same month as production.
9. Variable overheads will be £1 per unit, payable 1 month after production.
10. Fixed overheads (other than rent) will be £5,000 per month.

**(a)** **Prepare** a Cash Budget for the 4 months January to April Year 6, showing clearly   
the closing balance at the end of each month. **20**

**Total marks (20)**

**Question 9 — solution**

**Cash Budget for 4 months January – April Year 6\* (1)**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Jan** |  | **Feb** |  | **Mar** |  | **Apr** |  |  |
| Balance at start | 30,000 |  | 51,500 |  | 21,500 |  | -3,500 |  |  |
| Receipts |  |  |  |  |  |  |  |  |  |
| Loan | 40,000 | **(1)** |  |  |  |  |  |  |  |
| Cash Sales Revenue | 4,000 |  | 8,000 |  | 16,000 |  | 32,000 | **(2)** | **for line** |
| Credit Sales Revenue |  |  | 4,000 | **(1)** | 8,000 | **(1)** | 16,000 | **(1)** |  |
|  | 44,000 |  | 12,000 |  | 24,000 |  | 48,000 |  |  |
|  |  |  |  |  |  |  |  |  |  |
| Payments |  |  |  |  |  |  |  |  |  |
| Rent | 7,500 | **(1)** |  |  |  |  | 7,500 | **(1)** |  |
| Materials |  |  | 20,000 | **(1)** | 24,000 | **(1)** | 28,000 | **(1)** |  |
| Labour | 10,000 | **(1)** | 12,000 | **(1)** | 14,000 | **(1)** | 16,000 | **(1)** |  |
| Variable Overheads |  |  | 5,000 | **(1)** | 6,000 | **(1)** | 7,000 | **(1)** |  |
| Fixed Overheads | 5,000 |  | 5,000 |  | 5,000 |  | 5,000 | **(1)** | **for line** |
|  | 22,500 |  | 42,000 |  | 49,000 |  | 63,500 |  |  |
|  |  |  |  |  |  |  |  |  |  |
| Balance at end | 51,500 |  | 21,500 |  | -3,500 |  | -19,000 |  |  |
|  |  |  |  |  |  |  |  |  |  |

**\* This mark is for a heading with a time period, and opening and closing balances.**

**20**

**Total marks (20)**