



## Cashflow Forecast Exercise

A Development Project Director (with the assistance of the project accountant) has to draw up the projected cash budget for the financial year 01/01/2019 - 31/12/2019.

The following cash receipts and payments are forecast for the financial year beginning 1 January 2019:

1. The opening cash balance at 1 January 2019 is a positive balance of £500,000
2. Annual revenue receipts from local charges is expected to total £13,500,000 and is due to be received as follows:
  - Two thirds is receivable bi-annually on 1 January and 1 July. Of these amounts due 50% will be paid in the due month, with 40% being paid in the next month and 10% in the third month. The remaining one third is receivable in ten monthly installments, from February to November in the same year.
  - An annual revenue received from the donor via disbursements of £13,120,000 is receivable in July and December.
3. Monthly employee payments (salary and allowances) for the first 3 months is expected to be £1,600,000 but a 5% pay increase will be given in April.
4. Annual material purchase payments will be expected to be £250,000 per month. Other expenses obtained from the procurement plan of £2,040,000 will be incurred evenly throughout the year.
5. Capital payments (obtained from the Capital Budget and Capital Procurement Plan) of £800,000 in March and £610,000 in September.
6. Bank interest is charged at 10% per annum and is calculated at the beginning of each quarter based on any negative balances in the previous quarter.

Required :

- A. Prepare a cash budget for 2019.
- B. Prepare the annual Cash Budget (not broken down into monthly periods) for years 2020 and 2021, taking into account the following information:
  - Annual revenue receipts will increase by 5% in 2020 and by 6% in 2021
  - Revenue received from disbursements from the donor agency will increase by 3% in 2020 and 3% 2021
  - Employee salaries will increase by 5% on the 10/04/2020 and 6% on the 10/04/2021
  - Annual material purchases will increase by 3% in both 2020 and 2021
  - Other expenses will increase by 2.5% in 2020 and 3% in 2021
  - Capital payments will remain the same for 2020 and 2020
  - Bank interest payments are expected to be the similar to 2019