

**SEMESTER Spring 2017**  
**Corporate Finance (FIN622)**

**Assignment No. 1**

**Due Date: 17-July-2017**

**Marks: 10**

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**Learning Objective:**

The purpose of this activity is to develop skills in students related to preparation of cash budget of firms.

**Learning Outcome:**

This activity will help students to forecast future cash requirements of firms by preparing their cash budgets.

**Question:**

Blue Private Limited company is in a packaging business and manufacturer of cardboard boxes for a courier service. The company has received a large packaging order and anticipates the need to go to its bank to increase its borrowings. Thus, the financial manager of the company has been given the task to forecast the cash requirements. In case, if minimum cash balance for each month is less than Rs. 15,000, the company will be required to borrow the deficit at the rate of 10% annually from the bank.

Following information has been provided to the financial manager for the month of July:

<b>Month of July</b>	<b>Amount (Rs.)</b>
Closing balance	6,000
Actual Sales	80,000
Raw material expense	28,000
Labor cost	40,000
Selling and administrative expenses	18,000
Depreciation expense	9,000

In addition to above information, following are the estimates for the month of August and September:

- Estimated Sales for the month of August and September are Rs. 120,000 and Rs. 138,000 respectively.
- The company will purchase labelling machine worth Rs. 50,000 in August. Its payment will be made in October.
- Raw material cost is expected to be increased by Rs. 8,000 each month.
- Labor cost will be raised to Rs. 50,000 for the respective months.
- Selling and administrative expenses will increase by Rs. 3,000 per month.
- Old labelling machine will be sold in August for Rs. 29,000 and proceeds will be received in September.
- Depreciation expense will remain unchanged.

**Credit Extension Policy of the company is as under:**

Normally, the company collects 50% of Sales on cash basis, and 50% on one-month credit basis.

**Credit terms of the company are as under:**

<b>Working Capital Requirements</b>	<b>Credit terms</b>
Raw material expense payable	1-month
Selling and administration expenses payable	Paid in the month of incurrence
Labor cost payable	1-month
Depreciation expense payable	Paid in the month of incurrence

**Requirement:**

1. Prepare cash budget of Blue Private Limited company for the month of August and September.
2. Does company require to borrow funds to finance the deficit? Provide reasoning.

**Important Instructions:**

24 hours extra / grace period after the due date is usually available to overcome uploading difficulties. This extra time should only be used to meet the emergencies and above mentioned due dates should always be treated as final to avoid any inconvenience.

**OTHER IMPORTANT INSTRUCTIONS:**

Please also read the following instructions carefully before attempting the assignment solution.

**DEADLINE:**

- Make sure that you upload the solution file before the due date. **No assignment will be accepted through e-mail after due date** once the solution has been uploaded by the instructor.

**FORMATTING GUIDELINES:**

- Use the font style “Times New Roman” or “Arial” and font size “12”, double spaced.
- It is advised to compose your document in **MS-Word format**.
- You may also compose your assignment in Open Office format.
- Use **black** and **blue** font colors only.

**RULES FOR MARKING:**

Please note that your assignment will not be graded or graded as Zero (0), if:

- It is submitted after the due date.

- The file you uploaded does not open or is corrupt.
- It is in any format other than MS-Word or Open Office; e.g. Excel, PowerPoint, PDF etc.
- It is cheated or copied from other students, internet, books, journals etc.

**Note related to load shedding: Please be proactive**

**Dear students,**

As you know that semester activities have been started and load shedding problem is also prevailing in our country now a days. Keeping in view the fact, It is requested to all of you to manage to post your activities as early as possible and don't wait for the due date. For your convenience activity schedule has already been uploaded on VULMS for the current semester, therefore no excuse will be entertained after due date of assignments, quizzes or GDBs.