Business Finance

Chapter 4 – Financial Forecasting

Question Sheet

1. __________ is the key element in developing a pro forma statement is
   a. Cash budget
   b. Expected cash receipts
   c. Sales forecast
   d. Breakeven analysis

2. The most comprehensive means of financial forecasting is
   a. Through the use of securities analysts forecasts for the firm
   b. Done with a short term time horizon
   c. Done with a long term time horizon
   d. Through the use of pro forma financial statements

3. Which of the following is not a step in the development of the pro forma income statement?
   a. Establish a sales projection.
   b. Determine a production schedule and associated expenses to determine gross profit.
   c. Determine the cash receipts.
   d. Determine profit by completing the actual pro forma statement

4. In general, the cost of producing a product is based on material, labor, and
   a. Profit margin
   b. Cost of goods sold
   c. Overhead costs
   d. Shipping costs

5. The primary purpose of the cash budget is:
   a. To break the income statement down into monthly periods
   b. To determine monthly cash receipts
   c. To determine the collection pattern
   d. To allow the firm to anticipate the need for outside funding

6. To determine production requirements, which of the following would be appropriate?
   a. Beginning inventory - ending inventory.
   b. Sales + beginning inventory - ending inventory.
   c. Sales - ending inventory.
   d. Projected sales + desired ending inventory - beginning inventory.
7. ABC Ltd has budgeted sales for its most popular product for the next four months:

<table>
<thead>
<tr>
<th>Months</th>
<th>Sales (units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>50,000</td>
</tr>
<tr>
<td>May</td>
<td>75,000</td>
</tr>
<tr>
<td>June</td>
<td>90,000</td>
</tr>
<tr>
<td>July</td>
<td>80,000</td>
</tr>
</tbody>
</table>

ABC is in the process of preparing a production budget for the second quarter. Past experiences have shown that end-of-month inventory must equal to 15% of the following months sales plus 5,000. The inventory at the end of March was 4,000 units.

**Required:** Prepare a full production schedule for the second quarter.

8. XYZ Ltd has forecasted their revenues earned from sales and purchases made for the last 5 months for 2017:

<table>
<thead>
<tr>
<th>Months</th>
<th>Sales</th>
<th>Purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>August</td>
<td>$30,000</td>
<td>$17,000</td>
</tr>
<tr>
<td>September</td>
<td>20,000</td>
<td>18,500</td>
</tr>
<tr>
<td>October</td>
<td>30,000</td>
<td>26,000</td>
</tr>
<tr>
<td>November</td>
<td>30,000</td>
<td>20,000</td>
</tr>
<tr>
<td>December</td>
<td>28,000</td>
<td>26,000</td>
</tr>
</tbody>
</table>

60% of sales made XYZ are on credit. XYZ estimates that 50% of the credit sales are collected in the month after the sale and remaining collected 2 months after the sale. Purchases are paid a month after they are incurred. XYZ is required to maintain a minimum cash balance of $10,000, the cash balance on September 30th was $3,000. XYZ has to begin loan balance.

**Required:**
Prepare a cash budget for the months of October, November and December.