

Nirmala Anand- Cash Budget Case Study

In March 2017, Nirmala Anand took voluntary redundancy from a firm of architects and, in so doing, received ₹25,00,000 severance pay. She had long been interested in organic farming and decided to use her redundancy money to set up a business that would supply supermarkets with organic produce from local farmers

Before starting the business, Nirmala decided to seek advice from Davinder whom she appointed as her accountants Manager. He suggested that it would be necessary for Nirmala to put together a business plan, including a cash budget.

Nirmala and Davinder, her accountant, have discussed the planned business and arrived at the following estimates:

- 1) Nirmala will invest ₹ 20,00,000 in the business in January 2018
- 2) In January, she will purchase and pay for a delivery van costing ₹12,00,000, a computer and software for ₹70,000 and office equipment costing ₹1,00,000
- 3) She will rent a small industrial unit for ₹8,00,000 per annum. The rent will be payable quarterly in advance
- 4) She will sell on one months credit to the supermarkets but will have to pay cash to the farmers
- 5) She will employ one Distribution Manager on a salary of ₹9,00,000 per annum. Each month's salary will be paid on the last Friday in the month
- 6) She will sell her produce at cost plus 50%
- 7) The following sales are anticipated:

□ January	₹3,00,000
□ February	₹6,00,000
□ March	₹6,00,000
□ April	₹6,00,000
- 8) Nirmala will acquire an immediate inventory costing ₹3,00,000 and will keep the inventories at this level by always purchasing sufficient inventories to meet each month's sales
- 9) Davinder's fees for preparing the cash flow forecast and general advice will be ₹75,000

payable in June 2018

10) Other expenses anticipated are as follows:

	Motor expenses	Electricity	Sundry expenses
	₹	₹	₹
January	25000		15000
February	10000		13000
March	12000		13000
April	12000	20000	13000

- 11) Nirmala intends withdrawing ₹ 50000 per month from the business to cover her personal expenses
- 12) Nirmala's brother, H.K. Anand, is keen to see her established in her own business and has agreed to loan the business ₹5,00,000. Because he has to arrange the sale of investments to finance the loan, Nirmala can expect to receive the money on 1st March 2018. No interest will be payable in 2018 but thereafter interest is to be paid on the loan at the rate of 5% per annum.

From the above estimates, we can prepare the cash budget for Nirmala Anand's business for the four months ended 30th April 2018.