

## FIN-511 Financial Analysis Chapter 3

- Major Topics:
- Cash Budget:
  - Listing of firm's anticipated cash inflows and outflows over a specified period
- Cash budget's three parts:
  - Worksheet area: summarizes calculations: sales, accounts receivable, collections, payments for inventory purchases
  - Listing of each of the cash inflows (collections) and outflows (disbursements)
    - Calculation of ending cash balance and borrowing requirements

### Cash Budgeting Example

Biblo Barbeques						
Cash Budget						
For the Period June to September 2008						
	April	May	June	July	August	September
Sales	291000	365000	387000	329000	238000	145000
<b>Collections</b>						
Cash	40%		154,800	131,600	95,200	58,000
First Month	45%		164,250	174,150	148,050	107,100
Second Month	15%		43,650	54,750	58,050	49,350
<b>Total Collections</b>			<b>362,700</b>	<b>360,500</b>	<b>301,300</b>	<b>214,450</b>
Purchases	50%	182,500	193,500	164,500	119,000	72,500
<b>Payments</b>						
First Month	60%		116,100	98,700	71,400	43,500
Second Month	40%		73,000	77,400	65,800	47,600
<b>Total Payments</b>			<b>189,100</b>	<b>176,100</b>	<b>137,200</b>	<b>91,100</b>

### Cash Budgeting Example (cont)

Total Payments							
				<b>189,100</b>	<b>176,100</b>	<b>137,200</b>	<b>91,100</b>
Collections				362,700	360,500	301,300	214,450
<i>Less Disbursements</i>							
Inventory Payments				189,100	176,100	137,200	91,100
Wages	20%			77,400	65,800	47,600	29,000
Lease Payments				10,000	10,000	10,000	10,000
Interest				30,000	0	0	30,000
Dividend (Common)				50,000	0	0	0
Taxes				25,000	0	0	25,000
Capital Outlays				0	200,000	0	0
<b>Total Disbursements</b>				<b>381,500</b>	<b>451,900</b>	<b>194,800</b>	<b>185,100</b>

### Cash Budgeting Example (cont)

Total Disbursements							
				<b>381,500</b>	<b>451,900</b>	<b>194,800</b>	<b>185,100</b>
Beginning Cash Balance				20,000	15,000	15,000	121,500
Collections - Disbursements				(18,800)	(91,400)	106,500	29,350
Unadjusted Cash Balance				20,000	1,200	(76,400)	121,500
Current Borrowing				0	13,800	91,400	0
<b>Ending Cash Balance</b>				<b>20,000</b>	<b>15,000</b>	<b>15,000</b>	<b>150,850</b>
Notes:							
Minimum Acceptable Cash	15,000						

### Calculating Ending Cash Balance

- Beginning cash balance + total collections - total disbursements = unadjusted cash balance
- Unadjusted cash balance + current borrowing = ending cash balance
- General topics: =IF = MIN, = MAX, = AND functions
- Scenario Manager

### Complex Cash Budget

- Include interest on borrowed funds
- Include interest income on invested funds
- Borrow funds when unadjusted cash is less than minimum cash needed
- Invest funds when cash available is greater than maximum cash level

Beginning Cash Balance		20,000	15,000
Collections - Disbursements		(18,800)	(91,400)
→ Short-Term Interest Income (Exp.)		0	(92)
Unadjusted Cash Balance		1,200	(76,492)
Current Borrowing		13,800	91,492
→ Current Investing		0	0
<b>Ending Cash Balance</b>		<b>15,000</b>	<b>15,000</b>
Cumulative Investing (Borrowing)		(13,800)	(105,292)
Cumulative Interest Income (Exp.)		0	(92)
Notes:			
→ Minimum Acceptable Cash	15,000		
→ Maximum Acceptable Cash	40,000		
Borrowing Rate (Annual)	8.00%		
→ Lending Rate (Annual)	6.00%		

## Functions

- Scenario Manager: Tools, Scenario, Add.....
- = IF
  - Returns one value if a condition you specify evaluates to TRUE and another value if it evaluates to FALSE.
  - Use IF to conduct conditional tests on values and formulas.
  - IF(logical\_test,value\_if\_true,value\_if\_false)
  - Logical\_test is any value or expression that can be evaluated to TRUE or FALSE.
  - IF(B2>C2,"Over Budget","OK")

Continued

- = MIN
  - Returns the smallest number in a set of values.
  - MIN(number1,number2,...)
  - Number1, number2,... are 1 to 30 numbers for which you want to find the minimum value.
  - If A1:A5 contains the numbers 10, 7, 9, 27, and 2, then:
  - MIN(A1:A5) equals 2
- = AND
  - Returns TRUE if all its arguments are TRUE; returns FALSE if one or more arguments is FALSE.
  - AND(logical1,logical2,...)
  - Logical1, logical2, ... are 1 to 30 conditions you want to test that can be either TRUE or FALSE.
  - AND(TRUE, TRUE) equals TRUE
  - AND(TRUE, FALSE) equals FALSE
  - AND(2+2=4, 2+3=5) equals TRUE

## • Assignment:

- Do all of the work in the chapter, final result should look like Exhibits 3-5, 6, 8 (8 should include the full spreadsheet, not just the bottom)
- Format exactly like in the text.
- Remember Columns/Rows/Gridlines
- Each person will turn in one set of information: print out of spreadsheet and print out of cell formulas
- Work is individual.
- Due at the beginning of class.