

Start-up capital

I intend to use my savings of £15,000 to start an energy drink manufacturing company (Prestige Company). I would require buying plant and equipment worth £120,000. This purchase will be financed by a two-year loan from the bank. The loan will be repaid in two equal installments with first

The drink will be packaged in 400ml tetra pack bottles. The cost of production per unit will be as follows:

Direct materials £2.50

Factory overheads £0.80

Other operating expenses will be as follows:

Fixed monthly salaries of £5,000

Monthly rent of £1,500

Wages: 2% of production (units)

Monthly fixed factory overheads £2,500

Monthly fixed marketing expenses £1,250

All the operating expenses are paid for in the month they are incurred.

Each bottle will be sold at £4. Expected sales are as follows:

Month	Expected sales (units)	Sales (£)
January	13,750	£55,000
February	10,000	£40,000
March	11,250	£45,000
April	12,500	£50,000
May	20,000	£80,000
June	15,000	£60,000
July	12,500	£50,000
August	15,000	£60,000
September	16,250	£65,000
October	17,500	£70,000
November	15,500	£62,000
December	<u>15,000</u>	<u>£60,000</u>
Total	174,250	£697,000
January (2017)	16,000	

60% of sales will be in cash while the balance will be received one month after the sale.

Month	Expected sales (units)	Sales (£)	Cash sales	Credit sales
January	13,750	£55,000	£33,000	£22,000
February	10,000	£40,000	£24,000	£16,000
March	11,250	£45,000	£27,000	£18,000
April	12,500	£50,000	£30,000	£20,000
May	20,000	£80,000	£48,000	£32,000
June	15,000	£60,000	£36,000	£24,000
July	12,500	£50,000	£30,000	£20,000
August	15,000	£60,000	£36,000	£24,000
September	16,250	£65,000	£39,000	£26,000
October	17,500	£70,000	£42,000	£28,000
November	15,500	£62,000	£37,200	£24,800
December	15,000	£60,000	£36,000	£24,000
Total	174,250	£697,000	£418,200	£278,800

The schedule of cash collections will be as follows:

Month	Sales (£)	Cash sales	Credit sales	Collection from creditors
January	£55,000	£33,000	£22,000	£0
February	£40,000	£24,000	£16,000	£22,000
March	£45,000	£27,000	£18,000	£16,000
April	£50,000	£30,000	£20,000	£18,000
May	£80,000	£48,000	£32,000	£20,000
June	£60,000	£36,000	£24,000	£32,000
July	£50,000	£30,000	£20,000	£24,000
August	£60,000	£36,000	£24,000	£20,000
September	£65,000	£39,000	£26,000	£24,000
October	£70,000	£42,000	£28,000	£26,000
November	£62,000	£37,200	£24,800	£28,000
December	£60,000	£36,000	£24,000	£24,800
Total	£697,000	£418,200	£278,800	£254,800

At the end of every month, the inventory of finished goods on hand will be 20% of the following month's sales. In the case of raw materials, the company will adopt a JIT system hence there will be no inventories of raw materials at the end of each month. Purchases budget is as follows:

Month	Expected sales (units) A	Required closing stock B (20% × A ₁)	Opening stock C	Production D = A + B - C
January	13,750	2,000	0	15,750
February	10,000	2,250	2,000	10,250
March	11,250	2,500	2,250	11,500
April	12,500	4,000	2,500	14,000
May	20,000	3,000	4,000	19,000
June	15,000	2,500	3,000	14,500
July	12,500	3,000	2,500	13,000
August	15,000	3,250	3,000	15,250
September	16,250	3,500	3,250	16,500
October	17,500	3,100	3,500	17,100
November	15,500	3,000	3,100	15,400
December	<u>15,000</u>	3,200	3,000	15,200
January (2017)	16,000			

40% of all purchases are in cash while the balance is payable in the month following the month of purchase. Suppliers' payment schedule will be as follows:

Month	Production	Purchases	Cash purchases	Payment to credit suppliers	Total
January	15,750	39,375	£15,750	£0	£15,750
February	10,250	25,625	£10,250	£23,625	£33,875
March	11,500	28,750	£11,500	£15,375	£26,875
April	14,000	35,000	£14,000	£17,250	£31,250
May	19,000	47,500	£19,000	£21,000	£40,000
June	14,500	36,250	£14,500	£28,500	£43,000
July	13,000	32,500	£13,000	£21,750	£34,750
August	15,250	38,125	£15,250	£19,500	£34,750
September	16,500	41,250	£16,500	£22,875	£39,375
October	17,100	42,750	£17,100	£24,750	£41,850
November	15,400	38,500	£15,400	£25,650	£41,050
December	15,200	38,000	£15,200	£23,100	£38,300

Schedule of payments for operating expenses

Month	Production	Salaries	Rent	Wages	Factory overheads	Marketing	Total
January	15,750	£5,000	£1,500	£3,150	£2,500	£1,250	£13,400
February	10,250	£5,000	£1,500	£2,050	£2,500	£1,250	£12,300
March	11,500	£5,000	£1,500	£2,300	£2,500	£1,250	£12,550
April	14,000	£5,000	£1,500	£2,800	£2,500	£1,250	£13,050
May	19,000	£5,000	£1,500	£3,800	£2,500	£1,250	£14,050
June	14,500	£5,000	£1,500	£2,900	£2,500	£1,250	£13,150
July	13,000	£5,000	£1,500	£2,600	£2,500	£1,250	£12,850
August	15,250	£5,000	£1,500	£3,050	£2,500	£1,250	£13,300
September	16,500	£5,000	£1,500	£3,300	£2,500	£1,250	£13,550
October	17,100	£5,000	£1,500	£3,420	£2,500	£1,250	£13,670
November	15,400	£5,000	£1,500	£3,080	£2,500	£1,250	£13,330
December	15,200	£5,000	£1,500	£3,040	£2,500	£1,250	£13,290
Total		£60,000	£18,000	£35,490	£30,000	£15,000	£158,490

Principal amount of the loan = 120,000

Interest (20%) = $20\% \times 120,000 = £24,000$

Amount payable in December, 2016 = $0.5 \times 120,000 = 60,000$

Amount remaining (60,000) is payable within the following year hence it is classified under current liabilities.