

Assignment No 1.1.
"Oscar Ltd" Ltd.: Budget Projections for year 20X6.

Initial data and projected developments

Four friends, taking into account their previous business and professional experience, have decided to create a small manufacturing company for the production of a new and innovative product with a predictably good demand on the market. It has been decided to create a limited liability company with the name "**Oscar Ltd**". A market research in Latvia and the countries of the Baltic Sea region has been carried out. Before making the final decision and signing the participants' agreement, the friends, taking into account the advice of a consultant, decided to create a budget for the first six operating months of the enterprise. By doing so, a number of conditions were considered:

1. The necessary amount of investment for the purchase of equipment is intended **180'000 EUR**. The money delivery must be made in two payments. The equipment must be installed and shall be ready to operate by January 15th, 20X6.
The bill for equipment will be received on January 2nd 20X6 and must be paid accordingly: 50% on February 1st 20X6 and 50% on June 30 20X6.
The equipment fully depreciates in 10 years, at a rate of 10% every year.
In January 20X6 depreciation is assumed only 50% of monthly amount.
2. Direct labour expenses have been defined as **8 EUR/unit**. All the labour costs must be paid on the same month of their emergence. The employees have been hired on the 1st of January 20X6.
On the first two weeks of January the employees will have training provided by the equipment suppliers. The wage for this period is considered as tuition costs and constitute **5'000 EUR**.
3. The indirect production costs have been calculated – **1,50 EUR/unit**.
4. The direct costs for raw materials constitute **6,00 EUR/unit**. The supplier of raw materials has agreed that the payment will be made in **60** days time after the delivery of raw materials. Accordingly a representative of "Oscar Ltd" has agreed to purchase **1250** units of raw material every month starting from January 1st. It is intended to produce **1250** product units monthly starting from February 1st, 20X6. It is intended to produce half of the planned monthly amount on January, 20X6.
5. The calculations made by "Oscar Ltd" of administration costs and other fixed costs show that they constitute **8'000 EUR/month**. These expenses must be paid on the same month. The depreciation has not been included.
6. The study of the situation shows that a **60** day deferred payment must be offered to the product purchasers. At the same time a company in Riga ("Riga Ltd") which is ready to purchase **300** product units every month is asking for a **90 day** deferred payment. The founders of "Oscar Ltd" (the managers of "Oscar Ltd" as well) have agreed to this request. On January "Riga Ltd" will purchase **50%** of the amount agreed according to the contract. The other **1000** product units "Oscar Ltd" have planned to sell to 8 wholesalers in Latvia. The deliveries of production to these clients will be started on February, 20X6.
7. The selling price of one product unit is intended to be **26,00 EUR/unit**.

8. Finished goods that are in stock, is evaluated according to production costs.
9. Four friends (company owners) have decided to make a equity capital payment of **80'000 EUR** by the 31st December of 20X5. **The Investment Bank** has promised a long-term loan of **75'000 EUR** which will be handed over to "Oscar Ltd" on February 1st of 20X6. The conditions of the loan provide a 3 year exemption from the payment of the principal amount (3 year grace period). Further on a repayment of the loan must be made as 12 annual payments (one payment per year, within 12 years). The defined interest rate is **8%** p.a. The interest payment must be made monthly starting from August 1st of 20X6.

A Private Bank has also promised a long-term loan. **40'000 EUR** loan must be repaid in 10 years. The base amount must be repaid from July 1st of 20X6, 2 regular repayment terms of principal amount have been defined. "Oscar Ltd" will receive this loan on December 31st of 20X5 (the money will be transferred into "Oscar Ltd" Ltd. account). It is defined that the interest rate of the loan is **9%** p.a., the interest must be paid together with principal amount.

This bank is ready to issue a credit line for "Oscar Ltd" as well.

Individual Assignment:

Prepare a budget for "Oscar Ltd" for 6 months of 20X6. Prepare the following reports and calculations:

- 1) "Oscar Ltd" Beginning Balance (initial balance) of 01.01.20X6;
- 2) Sales forecast (in units) and the according sales revenue projections (EUR);
- 3) Production budget (projections), variable production cost calculation, raw material purchase budget (plan) with the according payment schedule /calculations;
- 4) Administrative and selling expenses budget;
- 5) Investment plan (including depreciation);
- 6) Profit/loss statement (projections for every month and a 6 month period);
- 7) Cash flow calculation;
- 8) **Question:** What must be the assigned credit line from the bank to make the necessary payments (according to your projections) and to ensure the overall liquidity at least of 50'000 EUR for June 30 of 20X6. (Answer can be given based on cash flow data and your calculations).
- 9) Ending Balance for 30.06.20X6.

Expenses related to social insurance and employee vacations are not to be taken into account. Eventual other taxes are not to be taken into account.

It is advised to use Excel in order to create financial projections (Profit/Loss Statement, Cash Flow Statement, Balance Sheet) and all asked budget data (your assumptions, calculations, tables, etc.).