

Sales budget is the first and basic component of master budget and it shows the expected number of sales units of a period and the expected price per unit. It also shows total sales which are simply the product of expected sales units and expected price per unit.

Sales Budget influences many of the other components of master budget either directly or indirectly. This is due to the reason that the total sales figure provided by sales budget is used as a base figure in other component budgets.

For example;

Company A  
Sales Budget  
For the Year Ending December 30, 2018

|                  | Quarter   |          |           |           | Year      |
|------------------|-----------|----------|-----------|-----------|-----------|
|                  | 1         | 2        | 3         | 4         |           |
| Sales Units      | 1,320     | 954      | 1,103     | 1,766     | 5,143     |
| × Price per Unit | \$91      | \$92     | \$97      | \$112     |           |
| Total Sales      | \$120,120 | \$87,768 | \$106,991 | \$197,792 | \$512,671 |

**Schedule of Expected Cash Collections:**

Schedule of expected cash collections from customers shows the budgeted cash collections on sales during a period. It is a component of master budget and it is prepared after the preparation of sales budget and before the preparation of cash budget.

The calculation of expected cash collections is based on the total sales figure obtained from sales budget. The management estimates the proportion in which sales are expected to be collected in the current and following periods. This is used to determine how much sales are expected to be collected during a period.

**Format and Example:**

The master budget of Company A continues here with the preparation of schedule of expected cash collections. The sales figures are obtained from the sales budget of the

company. 70% of sales are expected to be collected in the quarter in which sales are made and the rest are expected to be collected in the next period. Bad debts are negligible.

a) Q1 Sales = \$120,120

Collections in Q1 =  $\$120,120 \times 70\% = \$84,084$ ; Collections in Q2 =  $\$120,120 \times 30\% = \$36,036$

b) Q2 Sales = \$87,768

Collections in Q2 =  $\$87,768 \times 70\% = \$61,438$ ; Collections in Q3 =  $\$87,768 \times 30\% = \$26,330$

c) Q3 Sales = \$106,991

Collections in Q3 =  $\$106,991 \times 70\% = \$74,894$ ; Collections in Q4 =  $\$106,991 \times 30\% = \$32,097$

d) Q4 Sales = \$197,792

Collections in Q4 =  $\$197,792 \times 70\% = \$138,454$

### Company A

#### Schedule of Expected Cash Collections

For the Year Ending December 30, 2018

|                     | Quarter   |          |           |           | Year      |
|---------------------|-----------|----------|-----------|-----------|-----------|
|                     | 1         | 2        | 3         | 4         |           |
| Beginning AR        | \$62,130  |          |           |           | \$62,130  |
| Quarter 1 Sales (a) | 84,084    | \$36,036 |           |           | 120,120   |
| Quarter 2 Sales (b) |           | 61,438   | \$26,330  |           | 87,768    |
| Quarter 3 Sales (c) |           |          | 74,894    | \$32,097  | 106,991   |
| Quarter 4 Sales (d) |           |          |           | 138,454   | 138,454   |
| Total Collections   | \$146,214 | \$97,474 | \$101,224 | \$170,551 | \$515,463 |

Ex2/ ABC company shows the following estimates for unit sales for 2019 as below:

|            | Q1 | Q2  | Q3  | Q4  | YEAR |
|------------|----|-----|-----|-----|------|
| Units sold | 50 | 300 | 200 | 100 | 650  |

The company expects to sell its goods for \$300 P/U

**Required 1) prepare a sales budget for the year?**

Sol/

Company ABC  
Sales Budget  
For the Year Ending December 30, 2018

|                        | Q1     | Q2     | Q3     | Q4     | Total   |
|------------------------|--------|--------|--------|--------|---------|
| Units to be sold       | 50     | 300    | 200    | 100    | 650     |
| Selling price per unit | \$300  | \$300  | \$300  | \$300  | \$300   |
| Total Sales            | 15,000 | 90,000 | 60,000 | 30,000 | 195,000 |

Suppose the cash sales for same quarter is 60% and collected cash for the next quarter is 40%. The company's beginning accounts receivable is \$10,000. **What is the expected collected cash for the year?**

Sol:

Schedule of cash collections

|                         | Quarter  |              |         |         | Total    |
|-------------------------|----------|--------------|---------|---------|----------|
|                         | 1        | 2            | 3       | 4       |          |
| Beginning AR            | \$10,000 |              |         |         | \$10,000 |
| Quarter 1 Sales (a) 60% | 9,000    | \$6000 (40%) |         |         | 15000    |
| Quarter 2 Sales (b)     |          | 54000        | 36000   |         | 90000    |
| Quarter 3 Sales (c)     |          |              | 36000   | \$24000 | 60,000   |
| Quarter 4 Sales (d)     |          |              |         | 18000   | 18000    |
| Total Collections       | \$19000  | \$60000      | \$72000 | \$42000 | \$193000 |

Ex/ 3 ABC's sales manager expects that increased demand in the second half of the year will allow it to increase its unit price from \$10 to \$11. Also, the sales manager expects that the company's historical sales discounts and allowances percentage of two percent of gross sales will continue through the budget period.

Sol: Complete the sales budget!

ABC Company  
Sales Budget

For the Year Ended December 31, 20XX

|                                | <u>Quarter 1</u> | <u>Quarter 2</u> | <u>Quarter 3</u> | <u>Quarter 4</u> |
|--------------------------------|------------------|------------------|------------------|------------------|
| Forecasted unit sales          | 5,500            | 6,000            | 7,000            | 8,000            |
| x Price per unit               | \$XX             | \$XX             | \$XX             | \$XX             |
| Total gross sales              | \$XXX            | \$XXX            | \$XXX            | \$XXX            |
| - Sales discounts & allowances | <u>\$1,100</u>   | <u>\$1,200</u>   | <u>\$1,540</u>   | <u>\$1,760</u>   |
| = Total net sales              | \$XXX            | \$XXX            | \$XXX            | \$XXX            |

70% of sales are expected to be collected in the quarter in which sales are made and the rest are expected to be collected in the next period. **Prepare the schedule of expected cash collections?**