



EXERCISE IN CASH BUDGET MAKING

(“KRCKO”)

Will future operations provide sufficient cash for regular repayment of due debts? Is the available cash going to be sufficient for continual production? Will creditors be satisfied with proposed dynamics for repayment of their claims? What is the expected collection of receivables from buyers? Is there a danger of slow collection and deterioration of relationship with suppliers? Is there a possibility of additional indebtedness in certain “critical” months, when the need for working capital is higher than in other months, etc, etc...

Bankruptcy trustee will try to answer the above questions, and other similar questions regarding future operations of “reorganized” debtor, in the Bankruptcy Plan, which would, besides other parts defined and prescribed by the Law on bankruptcy, provide for creditors better insight of their current position with regard to claims against the debtor, as well as to check what benefits they would receive in case the Bankruptcy Plan is supported.

In continuation of this exercise carefully read the information, which is going to help you make the projection of cash income and outflow on your own for the company “KRCKO”, which is in textile production. Let us presume that there is the interest for one investor to “infuse” a financial injection that would provide sufficient sway for future production, and that we want to check whether the company will be able to operate during the 6 month period with no additional indebtedness, and how much cash will it have in the end of each month to repay old debts.

Carefully read the following instructions:

- Initial cash balance is 100.000 KM;
- Investor has also provided a bank loan in the amount of 40.000 KM for inventory;
- Investor was also approved a seasonal loan in the amount of 10.000 KM;
- Monthly interest on these loans is 500 KM starting as of first month;
- Price of raw materials to initiate production is 75.000 KM;
- Investor will pay loan installments in the amount of 3.000 KM per month;
- Krcko must renovate business premises in the amount of 25.000 KM;
- Raw materials will be purchased from different suppliers (payment in 30 days);
- Minimum cash balance for regular operations is 2.000 KM;
- Monthly expenses for premises are 2.000 KM;
- Monthly labor expenses are 4.000 KM;
- Administrative expenses, advertising, utilities are 5.000 KM per month;
- Interest expenses in the first year are 6.000 KM;
- No dividends, no other capital investments.

If we assume that the purchase of raw materials will be done in the following dynamics (1st month purchase in the amount of 75.000 KM; 2nd month 3.000 KM; 3rd month 4.000 KM; 4th month 6.000 KM; 5th month 4.000 KM, and 6th month 3.000 KM), try to answer the following question:

Is this company going to operate successfully?