perplexity

discuss and explain how to prepare a cash forecast using master budgets

A cash forecast within a master budget estimates the timing and amount of cash inflows and outflows so management can see future surpluses or shortages and plan financing or investments.[1] [2]

Role of master budgets

- A **master** budget is the overall financial plan that ties together operating budgets (sales, production, purchases, overhead, etc.) and financial budgets (cash, capital expenditures, budgeted financial statements).[3] [1]
- The cash budget/forecast is a core financial schedule within the master budget, showing expected cash position by period (often monthly or quarterly).[2] [1]

Inputs needed from master budget

- Sales budget and collection pattern to forecast cash *receipts* from customers (e.g., percent collected in month of sale, next month, etc.).[1] [2]
- Purchases/production, operating expense, and capital expenditure budgets to forecast cash *payments* for materials, wages, overhead, selling/admin, and asset purchases.[2] [1]

Step-by-step cash forecast

1. **Set the time frame and beginning cash**
    - Choose the forecast horizon and periods (e.g., 12 months, monthly columns) and enter the beginning cash balance for the first period.[4] [5]
2. **Forecast cash inflows from master budgets**
    - Use the sales budget plus the credit collection pattern to build a schedule of cash receipts by period (cash sales + collections of prior credit sales).[4] [2]
    - Add other planned cash inflows from the master budget, such as disposal of fixed assets, new borrowings, or owner/stockholder contributions.[3] [1]
3. **Forecast cash outflows from master budgets**
    - From the direct materials and purchases budget, create a payments schedule based on when payables will actually be paid (e.g., 50% in month of purchase, 50% next month).[2]
    - Add cash payments for: direct labor, overhead items paid in cash, selling and admin expenses, tax payments, interest, dividends, and planned capital expenditures from the

capital budget.[1] [4]

4. **Compute net cash flow and ending cash**
    - For each period:
        - Total cash available = beginning cash + total cash receipts.[2]
        - Total cash disbursements = sum of all forecast cash payments.[2]
        - Net cash flow = total cash available − total cash disbursements.[2]
5. **Apply minimum cash balance and financing**
    - Compare the projected ending cash with the company's required minimum cash balance set in the master budget policy.[3] [2]
    - If ending cash is below minimum, add planned borrowing (short-term loan or line of credit) to raise cash; if above, plan repayments or short-term investments.[4] [2]

How the forecast guides decisions

- The cash forecast highlights periods where operations as budgeted will not generate enough cash, prompting changes in spending, collection efforts, or financing plans before problems occur.[6] [4]
- It also shows when excess cash is likely, allowing management to schedule debt reduction or investments in line with the broader master budget and strategic goals.[1] [3]

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1. https://365financialanalyst.com/knowledge-hub/financial-planning-and-analysis/the-master-budget-step-by-step-guide/
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