

# Business memorandum

Business



Business Memorandum. Task: Business Memorandum. Scope and Objective of the budget. This document aims to highlight the significance of the various budget statements with the scope of making it much easier to provide structure for giving a company a sense of guidance towards a given direction and also predict cash flows for both short and long-term estimations thereby curbing periodic cash-related crunches. Moreover, it creates a platform that facilitates the modelling of various financial scenarios for companies and also may act as a measure of performance.

Significance of sensitivity analysis and the subsequent interpretation of the results.

Among the most important elements of financial analysis, sensitivity gives insight on a variety of concerns that ultimately assist in the growth of an entity (Blais 2011, p. 99). Therefore, Case 1 tries to evaluate the results of lowering credit sales from 75% of total sales to 60% with 20% of next months projected cost of goods sold being inventory at the end of each preceding month. Moreover cash payments during the same month are put at a modest 20% of total purchases. Consequently, these changes amount to various adjustments; the cash receipts budget records a positive inflation to \$2, 769, 808 from \$2, 734, 060. Moreover, summary cash budget also records a significant rise to \$738, 578 from \$51, 908.

Case 2 evaluates the effect of a rise in credit sales collected during the month of sale from 10% to 15%, and also the effect of raising a month's payment purchases from 40% to 50% within the month of purchase. This then results in an increase of the cash receipts budget from \$2, 734, 060 till \$2, 769, 808 while showing a drop in the cash budget to \$46, 102 from \$51, 908. The final case, Case 3, tries to simulate the possible result of a drop in <https://assignbuster.com/business-memorandum-essay-samples/>

requirements of equipment purchases from \$250, 000 down to \$100, 000. This alteration affects only the summary cash budget which inflates to the \$205, 658 mark.

Recommendation.

The first thing that the management should think of is ways of decreasing cost so as to maximize on profits and overall revenue. This can be attained through plummeting credit sales and also minimizing expenditure on the purchase of equipment. By doing this, the overall operating costs will reducing meaning that there will be more capital to be invested back into the business consequently leading to increased growth (Blais 2011, p. 312).

References.

Blais, S. (2011). *Business Analysis: Best Practices for Success*. New Jersey, NJ: John Wiley & Sons.