The financial position of TransEU Shipping co. at 1/1/20x1 is as follows:

|  |  |
| --- | --- |
|  | **TransEU** |
| Equipments (trucks) | 260,000 |
| Other tangible non current assets | 40,000 |
| Debtors | 67,000 |
| Bank | 3,000 |
|  |  |
| Loans | 180,000 |
| Creditors | 20,000 |
|  | **170,000** |
| Owners’ Capital | 30,000 |
| Retained earnings | 140,000 |
|  | **170,000** |

The company sells shipping services by truck from Romania to Italy. Average revenues per each travel is 2,000 €, while variable expenses (gasoline, living expenses for drivers, highway fees…) amount to 800 €.

Fixed operating expenses (drivers, insurance and depreciation of trucks, administrative expenses…) amount to 500,000 € per year. The goal for the next year is a 400,000 € EBIT.

Required:

1. Prepare the quarterly budget of the operating revenues and expenses for the next financial period (20x1) assuming that:

* Travels are usually distributed 20% in the first quarter, 25% in the second as well as in the third quarter, 30% in the last quarter of the year;

1. Prepare the quarterly cash budget for the year 20x1 taking into account the seasonality of the business and the following assumptions as well:

* Sales and variable expenses within each quarter are constant (no increases or decreases of sales in the quarter);
* The company owns 4 trucks; depreciation amounts to 48,000 € as a whole; total depreciation is 54,000 € including the other tangible non-current assets;
* Clients pay on average 50% at delivery and 50% after 30 days;
* The company pays expenses immediately, with the only exception of administrative expenses (10,000 € per month) that are paid in 60 days.
* The company pays monthly installments for the loan, amounting to 12,000 € (interest = 4.000 € per month);
* The company wants to substitute a truck; this transaction is planned in the second quarter. The new truck, net of trade-in (i.e. the withdrawal of the used truck) is supposed to cost 35,000 €. No gains or losses are expected to occur because of this transaction.

1. Calculate the D/E ratio at the end of the year, considering that interest expenses on the loans for the whole period amount to 16,000 € and the tax rate is 20%.