Chapter 13 – Planning & Budgeting Exam Prep Handout

1. The Sledge Hammer Company manufactures a line of high quality tools. The company sold 1,000,000 hammers at a price of $4 per unit last year. The company estimates that this volume represents a 20% share of the current hammers market. The market is expected to increase by 5%. Marketing specialists have determined that, as a result of a new advertising campaign and packaging, the company will increase its share of this larger market to 24%. Due to changes in prices, the new price for the hammer will be $4.30 per unit. This new price is expected to be in line with the competition and have no effect on the volume estimates. What are the estimated sales revenues in the coming year?

A. $5,040,000
B. $5,160,000
C. $5,418,000
D. $5,689,000

2. The Waverly Company has budgeted sales for the year as follows:

Quarter	*1*	*2*	*3*	*4*
Sales in units	12,000	14,000	18,000	16,000

The ending inventory of finished goods for each quarter should equal 25% of the next quarter's budgeted sales in units. The finished goods inventory at the start of the year is 3,000 units. Scheduled production for the third quarter is (in units)

A. 17,500 units
B. 18,500 units
C. 18,000 units
D. 16,500 units

3. The Smart Company is preparing its cash budget for the month of June. The following information is available concerning its accounts receivable:

Estimated credit sales for June	$300,000
Actual credit sales for May	225,000
Est. collections in June for credit sales in June	25%
Est. collections in June for credit sales in May	65%
Est. collections in June for credit sales prior to May	$ 18,000
Est. write-offs in June for uncollectible credit sales	12,000
Est. provision for bad debts in June for credit sales in June	10,000

What are the estimated cash receipts from accounts receivable collections in June?

A. $221,250
B. $227,250
C. $229,250
D. $239,250

E 13-26. Estimate Purchases and Cash Disbursements (LO 13-4, 5)

White Products wishes to purchase goods in one month for sale in the next. On March 31, the company has 8,000 portable music players in stock, although sales for the next month (April) are estimated to total 8,600 players. Total sales of players are expected to be 7,000 in May and 7,400 in June.

Portable music players are purchased at a wholesale price of $45. The supplier has a financing arrangement by which White Products pays 60 percent of the purchase price in the month when the players are delivered and 40 percent in the following month. White purchased 10,000 players in March.

Required

a. Estimate purchases (in units) for April and May.

b. Estimate the cash required to make purchases in April and May.

E 13-31. Estimate Cash Receipts (LO 13-5)

Varmit-B-Gone is a pest control service that operates in a suburban neighborhood. The company attempts to make service calls at least once a month to all homes that subscribe to its service. It makes more frequent calls during the summer. The number of subscribers also varies with the season. The number of subscribers and the average number of calls to each subscriber for the months of interest follow:

	Subscribers	Service Calls (per subscriber)
March	600	0.6
April	700	0.9
May.	1,400	1.5
June	1,600	2.5
July	1,600	3.0
August	1,500	2.4

The average price charged for a service call is $80. Of the service calls, 30 percent are paid in the month the service is rendered, 60 percent in the month after the service is rendered, and 8 percent in the second month after. The remaining 2 percent is uncollectible.

Required

What are Varmit-B-Gone's expected cash receipts for May, June, July, and August?

13-49. Comprehensive Budget Plan (LO 13-4, 5, 6)

Panther Corporation appeared to be experiencing a good year. Sales in the first quarter were one-third ahead of last year, and the sales department predicted that this rate would continue throughout the entire year. The controller asked Janet Nomura, a summer accounting intern, to prepare a draft forecast for the year and to analyze the differences from last year's results. She based the forecast on actual results obtained in the first quarter plus the expected costs of production to be completed in the remainder of the year. She worked with various department heads (production, sales, and so on) to get the necessary information. The results of these efforts follow:

PANTHER CORPORATION
Expected Account Balances for December 31, Year 2

Cash	$ 4,800	
Accounts receivable	320,000	
Inventory (January 1, Year 2)	192,000	
Plant and equipment	520,000	
Accumulated depreciation		$ 164,000
Accounts payable		180,000
Notes payable (due within one year)		200,000
Accrued payables		93,000
Common stock		280,000
Retained earnings		432,800
Sales revenue		2,400,000
Other income		36,000
Manufacturing costs		
Materials	852,000	
Direct labor	872,000	
Variable overhead	520,000	
Depreciation	20,000	
Other fixed overhead	31,000	
Marketing		
Commissions	80,000	
Salaries	64,000	
Promotion and advertising	180,000	
Administrative		
Salaries	64,000	
Travel	10,000	
Office costs	36,000	
Income taxes	—	
Dividends	20,000	
	$3,785,800	$3,785,800

Adjustments for the change in inventory and for income taxes have not been made. The scheduled production for this year is 450,000 units, and planned sales volume is 400,000 units. Sales and production volume was 300,000 units last year. The company uses a full-absorption costing and FIFO inventory system and is subject to a 40 percent income tax rate. The actual income statement for last year follows:

PANTHER CORPORATION
Statement of Income and Retained Earnings
For the Budget Year Ended December 31, Year 1

Revenues			
Sales revenue		$1,800,000	
Other income		60,000	$1,860,000
Expenses			
Cost of goods sold			
Materials	$ 528,000		
Direct labor	540,000		
Variable overhead	324,000		
Fixed overhead	48,000		
	$1,440,000		
Beginning inventory	192,000		
	$1,632,000		
Ending inventory	192,000	$1,440,000	
Selling			
Salaries	$ 54,000		
Commissions	60,000		
Promotion and advertising	126,000	240,000	
General and administrative			
Salaries	$ 56,000		
Travel	8,000		
Office costs	32,000	96,000	
Income taxes		33,600	1,809,600
Operating profit			50,400
Beginning retained earnings			402,400
Subtotal			$ 452,800
Less dividends			20,000
Ending retained earnings			$ 432,800

Required

Prepared a budgeted income statement and balance sheet.

(CMA adapted)

13-50. Prepare Cash Budget for Service Organization (LO 13-4, 5, 6, 7)

The board of directors of the Cortez Beach Yacht Club (CBYC) is developing plans to acquire more equipment for lessons and rentals and to expand club facilities. The board plans to purchase about $50,000 of new equipment each year and wants to begin a fund to purchase a $600,000 piece of property for club expansion.

The club manager is concerned about the club's capability to purchase equipment and expand its facilities. One club member has agreed to help prepare the following financial statements and help the manager ascertain whether the plans are realistic. Additional information follows the financial statements.

CORTEZ BEACH YACHT CLUB
Statement of Income (Cash Basis)
For the Year Ended October 31

	Year 9	Year 8
Cash revenues		
Annual membership fees	$ 710,000	$600,000
Lesson and class fees	468,000	360,000
Miscellaneous	4,000	3,000
Total cash received	$1,182,000	$963,000
Cash costs		
Manager's salary and benefits	$ 72,000	$ 72,000
Regular employees' wages and benefits	380,000	380,000
Lesson and class employees' wages and benefits	390,000	300,000
Supplies	32,000	31,000
Utilities (heat and light)	44,000	30,000
Mortgage interest	70,200	75,600
Miscellaneous	4,000	3,000
Total cash costs	$ 992,200	$891,600
Cash income	$ 189,800	$ 71,400

Additional Information

1. Other financial information as of October 31, Year 9:

a. *Cash in checking account, $14,000.*

b. *Petty cash, $600.*

c. *Outstanding mortgage balance, $720,000.*

d. *Accounts payable for supplies and utilities unpaid as of October 31, Year 9, and due in November Year 9, $5,000.*

2. The club purchased $50,000 worth of sailing equipment during the current fiscal year (ending October 31, Year 9). Cash of $20,000 was paid on delivery, with the balance due on October 1, which had not been paid as of October 31, Year 9.

3. The club began operations in year 3 in rental quarters. In October Year 5, it purchased its current property (land and building) for $1,200,000, paying $240,000 down and agreeing to pay $60,000 plus

6 percent interest annually on the previously unpaid loan balance each November 1, starting November 1, Year 6.

4. Membership rose 3 percent during year 9, approximately the same annual rate of increase the club has experienced since it opened and that is expected to continue in the future.
5. Membership fees were increased by 15 percent in year 9. The board has tentative plans to increase them by 10 percent in year 10.
6. Lesson and class fees have not been increased for three years. The number of classes and lessons has grown significantly each year; the percentage growth experienced in year 9 is expected to be repeated in year 10.
7. Miscellaneous revenues are expected to grow in year 10 (over year 9) at the same percentage as experienced in year 9 (over year 8).
8. Lesson and class employees' wages and benefits will increase to $604,650. The wages and benefits of regular employees and the manager will increase 15 percent. Equipment depreciation and supplies, utilities, and miscellaneous expenses are expected to increase 25 percent.

Required

a. Construct a cash budget for year 10 for Cortez Beach Yacht Club.

b. Identify any operating problem(s) that this budget discloses for CBYC. Explain your answer.

c. Is the manager's concern that the board's goals are unrealistic justified? Explain your answer.

(CMA adapted)