Profit Planning

96. Randall Company is a merchandising company that sells a single product. The company's inventories, production, and sales in units for the next three months have been forecasted as follows:

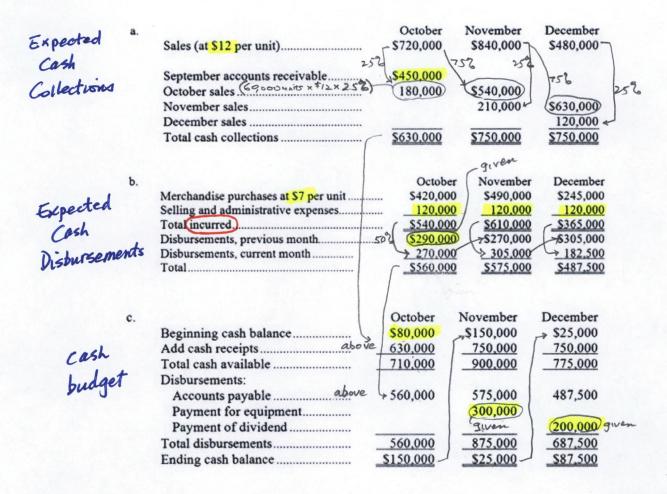
	October	November	December
Beginning inventory	10,000	10,000	10,000
Merchandise purchases	60,000	70,000	35,000
Sales	60,000	70,000	40,000
Ending inventory	10,000	10,000	5,000

Units are sold for \$12 each One fourth of all sales are paid for in the month of sale and the balance are paid for in the following month. Accounts receivable at September 30 totaled \$450,000.

Merchandise is purchased for \$7 per unit. Half of the purchases are paid for in the month of the purchase and the remainder are paid for in the month following purchase. Selling and administrative expenses are expected to total \$120,000 each month. One half of these expenses will be paid in the month in which they are incurred and the balance will be paid in the following month. There is no depreciation. Accounts payable at September 30 totaled \$290,000. Cash at September 30 totaled \$80,000. A payment of \$300,000 for purchase of equipment is scheduled for November, and a dividend of \$200,000 is to be paid in December.

Required:

- a. Prepare a schedule of expected cash collections for each of the months of October, November, and December.
- b. Prepare a schedule showing expected cash disbursements for merchandise purchases and selling and administrative expenses for each of the months October, November, and December.
- c. Prepare a cash budget for each of the months October, November, and December. There is no minimum required ending cash balance.



Learning Objective: 09-01 Understand why organizations budget and the processes they use to create budgets.

Learning Objective: 09-02 Prepare a sales budget; including a schedule of expected cash collections.

Learning Objective: 09-07 Prepare a selling and administrative expense budget.

Learning Objective: 09-08 Prepare a cash budget.

Level: 2 Medium

- 97. Welnor Industrial Gas Corporation supplies acetylene and other compressed gases to industry. Data regarding the store's operations follow:
 - o Sales are budgeted at \$320,000 for November, \$340,000 for December, and \$330,000 for January.
 - o Collections are expected to be 75% in the month of sale 20% in the month following the sale, and 5% uncollectible.
 - o The cost of goods sold is 65% of sales.
 - o The company desires ending merchandise inventory to equal 80% of the following month's cost of goods sold. Payment for merchandise is made in the month following the purchase.
 - o Other monthly expenses to be paid in cash are \$21,000.
 - o Monthly depreciation is \$16,000.
 - o Ignore taxes.

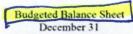
Statement of Financial Position October 31

Assets	
Cash	\$22,000
Accounts receivable (net of allowance for uncollectible accounts)	82,000
Merchandise inventory	166,400
Property, plant and equipment (net of \$658,000 accumulated depreciation)	1,170,000
Total assets	\$1,440,400
Liabilities and Stockholders' Equity	
Accounts payable	\$199,000
Common stock	840,000
Retained earnings	401,400
Total liabilities and stockholders' equity	\$1,440,400

Required:

- a. Prepare a Schedule of Expected Cash Collections for November and December.
- b. Prepare a Merchandise Purchases Budget for November and December.
- c. Prepare Cash Budgets for November and December.
- d. Prepare Budgeted Income Statements for November and December.
- e. Prepare a Budgeted Balance Sheet for the end of December.

a.	Sales	November \$320,000	December \$340,000
Almi	Schedule of Expected Cash Collections Accounts receivable	ven) \$82,000 75%) 240,000 \$322,000	\$64,000 (20%) 255,000 (75%) \$319,000
166,400 208,000 b. 218,400 208,000 CGS	Merchandise Purchases Budget 65% Budgeted cost of goods sold Add desired ending merchandising inventory Total needs Less beginning merchandise inventory Required purchases	Nøvember S208,000	December \$221,000
176,800	Cash Budgets Cash disbursements for merchandise Other monthly cash expenses. Total cash disbursements Cash balance, beginning Add cash receipts Total cash available Less cash disbursements:	\$22,000 \$22,000 \$22,000	December \$218,400 21,000 \$239,400 \$124,000 319,000 443,000 239,400
d.	Excess (deficiency) of cash available over disbursements Financing	November \$320,000 16,000 208,000 96,000	December \$340,000 17,000 221,000 102,000
	Other monthly expenses	21,000 16,000 \$59,000	21,000 16,000 \$65,000



Assets	/	
Cash	\$203,600	2
Accounts receivable (net of allowance for uncollectible accounts)	68,000	3
Inventory	171,600	
Property, plant and equipment (net of \$690,000 accumulated depreciation)	1,138,000	
Total assets	\$1,581,200	
Liabilities and Stockholders' Equity		
Accounts payable	\$215,800	
Common stock	840,000	
Retained earnings	525,400	
Total liabilities and stockholders' equity	\$1,581,200	

Learning Objective: 09-02 Prepare a sales budget; including a schedule of expected cash collections.

Learning Objective: 09-03 Prepare a production budget. Learning Objective: 09-08 Prepare a cash budget.

Learning Objective: 09-09 Prepare a budgeted income statement. Learning Objective: 09-10 Prepare a budgeted balance sheet.

Level: 3 Hard