

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.

a.		October	November	December
	Sales (at \$12 per unit).....	\$720,000	\$840,000	\$480,000
	September accounts receivable.....	\$450,000		
	October sales	180,000	\$540,000	
	November sales		210,000	\$630,000
	December sales			120,000
	Total cash collections	<u>\$630,000</u>	<u>\$750,000</u>	<u>\$750,000</u>
b.		October	November	December
	Merchandise purchases at \$7 per unit	\$420,000	\$490,000	\$245,000
	Selling and administrative expenses.....	120,000	120,000	120,000
	Total incurred.....	<u>\$540,000</u>	<u>\$610,000</u>	<u>\$365,000</u>
	Disbursements, previous month.....	\$290,000	\$270,000	\$305,000
	Disbursements, current month	270,000	305,000	182,500
	Total.....	<u>\$560,000</u>	<u>\$575,000</u>	<u>\$487,500</u>
c.		October	November	December
	Beginning cash balance.....	\$80,000	\$150,000	\$25,000
	Add cash receipts	<u>630,000</u>	<u>750,000</u>	<u>750,000</u>
	Total cash available	<u>710,000</u>	<u>900,000</u>	<u>775,000</u>
	Disbursements:			
	Accounts payable	560,000	575,000	487,500
	Payment for equipment.....		300,000	
	Payment of dividend			200,000
	Total disbursements.....	<u>560,000</u>	<u>875,000</u>	<u>687,500</u>
	Ending cash balance	<u>\$150,000</u>	<u>\$25,000</u>	<u>\$87,500</u>

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)	<u>1,170,000</u>
Total assets	<u>\$1,440,400</u>
Liabilities and Stockholders' Equity	
Accounts payable	\$199,000
Common stock	840,000
Retained earnings	<u>401,400</u>
Total liabilities and stockholders' equity	<u>\$1,440,400</u>

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.		November	December
	Sales	<u>\$320,000</u>	<u>\$340,000</u>
	Schedule of Expected Cash Collections		
	Accounts receivable	\$82,000	
	November sales	240,000	\$64,000
	December sales		255,000
	Total cash collections	<u>\$322,000</u>	<u>\$319,000</u>
b.		November	December
	Budgeted cost of goods sold	\$208,000	\$221,000
	Add desired ending merchandising inventory	<u>176,800</u>	<u>171,600</u>
	Total needs	384,800	392,600
	Less beginning merchandise inventory	<u>166,400</u>	<u>176,800</u>
	Required purchases	<u>\$218,400</u>	<u>\$215,800</u>
c.		November	December
	Cash disbursements for merchandise	\$199,000	\$218,400
	Other monthly cash expenses	<u>21,000</u>	<u>21,000</u>
	Total cash disbursements	<u>\$220,000</u>	<u>\$239,400</u>
	Cash balance, beginning	\$ 22,000	\$124,000
	Add cash receipts	<u>322,000</u>	<u>319,000</u>
	Total cash available	344,000	443,000
	Less cash disbursements:	<u>220,000</u>	<u>239,400</u>
	Excess (deficiency) of cash available over disbursements	124,000	203,600
	Financing	0	0
	Cash balance, ending	<u>\$124,000</u>	<u>\$203,600</u>
d.		November	December
	Sales	\$320,000	\$340,000
	Bad debt expense	16,000	17,000
	Cost of goods sold	<u>208,000</u>	<u>221,000</u>
	Gross margin	96,000	102,000
	Other monthly expenses	21,000	21,000
	Depreciation	<u>16,000</u>	<u>16,000</u>
	Net operating income	<u>\$59,000</u>	<u>\$65,000</u>

c.

Budgeted Balance Sheet
December 31

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

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