You are the new manager of the betterbuy Electronics store in the Mall of America. Top management of Betterbuy Electronics is convinced that management training should include the active participation of store managers in the budgeting process. You have been asked to prepare a complete master budget for your store for June, July and August. All accounting is done centrally so you have no expert help on the premises. In addition, tomorrow the branch manager and the assistant controller will be here to examine your work; at that time, they will assist you in formulating the final budget document. The idea is to have you prepare the initial budget on your own so that you gain mor e confidence about accounting matters. You want to make a favorable impressions on your superiors, so you gather the following data as of May 31, 20X8.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Cash |  | $29,000 |  | Recent and Projected Sales | | |
| Inventory |  | $434,000 |  | April | $300,000 |  |
| Accounts receivable |  | $369,000 |  | May | 350,000 |  |
| Net Furniture and fixtures |  | $168,000 |  | June | 700,000 |  |
| Total Assets |  | $1,000,000 |  | July | 400,000 |  |
| Accounts payable |  | $489,000 |  | August | 400,000 |  |
| Owners' Equity |  | 511,000 |  | September | 300,000 |  |
| Total liabilities and owners' equities |  | $1,000,000 |  |  |  |  |
|  |  |  |  |  |  |  |

Credit sales are 90% of total sales. Credit accounts are collected 80% in the month following the sale and 20% in the subsequent month. Assume that bad debts are negligible and can be ignored. The accounts receivable on May 31 are the result of the credit sales for April and May.

(.20 x .90 x $300,000) + (1.0 x .90 x $350,000) = $369,000.

The average gross profit on sales 38%.

The policy is to acquire enough inventory each month to equal the following month’s projected cost of goods sold. All purchases are paid for in the month following purchase.

Salaries, wages and commissions average 20% of sales; all other variable expenses are 4% of sales. Fixed expenses for rent, property taxes, and miscellaneous payroll and other items are $55,000 monthly. Assume that these variable and fixed expenses require cash disbursement each month Depreciation is $2,500 monthly.

In June, $55,000 is going to be disbursed for fixtures acquired and recorded in furniture and fixtures in May. The May 31 balance of accounts payable includes this amount.

Assume that a minimum cash balance of $25,000 is to be maintained. Also assume that all borrowings are effective at the beginning of the month and all repayments are made at the end of the month of repayment. Interest is compounded and added to the outstanding balance each month, but Interest is paid only at the ends of months when principal is repaid. The interest rate is 10% per annum; round interest interest computations and interest payments to the nearest dollar. Interest payment may be any dollar amount, but all borrowing and repayments of principal are made in multiples of $1,000.

1. Prepare a budgeted income statement for the coming June through August quarter, a cash budget (for each of the next three months), and a budgeted balance sheet for August 31, 20X8. All operations are evaluated on a before-income tax basis, so income taxes may be ignored here.
2. Explain why there is a need for a bank loan and what operating sources supply cash for repaying the bank loan.