1. Problem 7-B1: Preparing Master Budget

1. You need to respond to the 2 questions on page 325 relating to 7-B1

Start with Cash Budget. You need to complete cash budget to be able to Statement of

Cash Receipts

 January February March

Schedule: Sales Budget

Total sales (100% on credit) $62,000 $70,000 $38,000

Schedule: Cash Collections

60% of current month's sales $37,200 $42,000 $22,800

30% of previous month's sales 7,500 18,600 21,000

10% of second previous month's sale 2,500 2,500 6,200

Total collections $47,200 $63,100 $50,000

Complete you purchase budget:

Cost of goods sold is based on

 Selling price of $8 and estimate cost of $4

 Cost of goods sold = 4/8 = 50% of each month's sale

 December January February March

Schedule: Purchases Budget

Desired ending inventory $39,050 $ 6,000 $ 6,000 $ 6,000

Cost of goods sold 12,500 31,000 35,000 19,000

Total needed $51,550 $37,000 $41,000 $25,000

Beginning inventory 16,000 39,050 8,050 6,000

Purchases $35,550 $ - $32,950 $19,000

Budgeted Cash Receipts and Disbursements

For January, you need to calculate rent based on previous 3 months' sale:

October .............. 38000

Nov .................... 25000

Dec .................... 25000

Total .................88,000 - 10000 = 78000 x 0.10 = 7800 + 250 = 8050 = rent for January.

 Rent for Feb and March is 250 each.

January Cash Receipts and Disbursements:

Beginning cash ............................... 5000

Minimum ending cash balance ....... 5000

(A) Available cash balance ............. 0

Cash receipts and disbursements: January

 Collections from customers 47,200

 Payments for merchandise (35,550)

 Rent (8,050)

 Wages and salaries (15,000)

 Miscellaneous expenses (2,500)

 Dividends (1,500)

 Purchase of fixtures -

 (B) Net cash receipts & disbursements $ (15,400)

Financing:

 Borrowing, at beginning of period $ 15,500 $

 Repayment, at end of period

 Interest, 10% per annum

(c) Total cash increase (decrease)

 from financing

(d) Cash balance, end (beginning

 balance + c + b) $ 5,100 = (5000 + 15500 - 15400 = 5100)

Here are notes for the rest of the problems:

1. $5100 will be your beginning balance in the month of Feb.

2. Loan of $15500 will be repaid in Feb.

3. Interest on loan when repaid = 15500 x0.10 = 1550/12 = 129 x 2 months = 258 = interest expense paid in Feb.

4. In the month of February your cash disbursements are rent of 250, wages of 15,000, interest of

 of 258, loan of 15500, and misc expense of 2500

5. In the month of March, your cash disbursements are payment for merchandise 32950, rent of 250, payment for fixture of 3000, wages of 15000, and misc expense of 2500.

6. To prepare your Budgeted Income Statement for Quarter ending 3/31 (3 months) using appropriate format for income statement

7. To Prepare Budgeted Balance sheet for Quarter ending 3/31, please consider the following information:

A. What is your ending cash balance in the month of March?

B. What is your accounts receivable?: 10% February sales + 40% of March sales

C. What is your ending inventory (see purchases budget)

D. What is your fixed asset? See fixed assets and add 3000 new fixture less depreciation for 3 months

E. What is your accounts payable? See disbursement for purchases schedule

F. What is your rent payable? (add together sales for Jan - March less 10000)

G. What is your dividend payable?

H. What is your stockholders' equity?

 Beginning equity + net income - dividend = ending equity