

Problems



PROBLEM 8-8 Behavioral Aspects of Budgeting [LO1]

Five years ago, Jack Cadence left his position at a large company to start Advanced Technologies Co. (ATC), a software design company. ATC's first product was a unique software package that seamlessly integrates networked PCs. Robust sales of this initial product permitted the company to begin development of other software products and to hire additional personnel. The staff at ATC quickly grew from three people working out of Cadence's basement to over 70 individuals working in leased spaces at an industrial park. Continued growth led Cadence to hire seasoned marketing, distribution, and production managers and an experienced accountant, Bill Cross.

Recently, Cadence decided that the company had become too large to run on an informal basis and that a formalized planning and control program centered around a budget was necessary. Cadence asked the accountant, Bill Cross, to work with him in developing the initial budget for ATC.

Cadence forecasted sales revenues based on his projections for both the market growth for the initial software and successful completion of new products. Cross used this data to construct the master budget for the company, which he then broke down into departmental budgets. Cadence and Cross met a number of times over a three-week period to hammer out the details of the budgets.

When Cadence and Cross were satisfied with their work, the various departmental budgets were distributed to the department managers with a cover letter explaining ATC's new budgeting system. The letter requested everyone's assistance in working together to achieve the budget objectives.

Several of the department managers were displeased with how the budgeting process was undertaken. In discussing the situation among themselves, they felt that some of the budget projections were overly optimistic and not realistically attainable.

Required:

1. How does the budgeting process Cadence and Cross used at ATC differ from recommended practice?
2. What are the behavioral implications of the way Cadence and Cross went about preparing the master budget?

(CMA, adapted)



PROBLEM 8-9 Schedules of Expected Cash Collections and Disbursements [LO2, LO4, LO8]

Calgon Products, a distributor of organic beverages, needs a cash budget for September. The following information is available:

- a. The cash balance at the beginning of September is \$9,000.
- b. Actual sales for July and August and expected sales for September are as follows:

	July	August	September
Cash sales	\$ 6,500	\$ 5,250	\$ 7,400
Sales on account	20,000	30,000	40,000
Total sales	<u>\$26,500</u>	<u>\$35,250</u>	<u>\$47,400</u>

Sales on account are collected over a three-month period as follows: 10% collected in the month of sale, 70% collected in the month following sale, and 18% collected in the second month following sale. The remaining 2% is uncollectible.

- c. Purchases of inventory will total \$25,000 for September. Twenty percent of a month's inventory purchases are paid for during the month of purchase. The accounts payable remaining from August's inventory purchases total \$16,000, all of which will be paid in September.
- d. Selling and administrative expenses are budgeted at \$13,000 for September. Of this amount, \$4,000 is for depreciation.
- e. Equipment costing \$18,000 will be purchased for cash during September, and dividends totaling \$3,000 will be paid during the month.
- f. The company maintains a minimum cash balance of \$5,000. An open line of credit is available from the company's bank to bolster the cash position as needed.

Required:

1. Prepare a schedule of expected cash collections for September.
2. Prepare a schedule of expected cash disbursements during September for inventory purchases.
3. Prepare a cash budget for September. Indicate in the financing section any borrowing that will be needed during September.