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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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After a number of unsuccessful attempts at getting a job in his discipline, Michael decided to go into business for himself. In thinking about his business venture, Michael determined that he had four criteria for the new business:   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |  |  | | --- | --- | | **1.** | He wanted to do something that he would enjoy. | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | **2.** | He wanted a business that would give back to the community. | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | **3.** | He wanted a business that would grow and be more successful every year. | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | **4.** | Realizing that he was going to have to work very hard, Michael wanted a business that would generate a minimum net income of $25,000 annually. | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | |   While reflecting on the criteria he had outlined, Michael, who had been president of his fraternity and served as an officer in several other student organizations, realized that there was no place in Campus Town to have custom sweatshirts made using a silk-screen process. When student organizations wanted sweatshirts to give to their members or to market on campus, the officers had to make a trip to a city 100 miles away to visit “Shirts and More.”  Michael had worked as a part-time employee at Shirts and More while he was in high school and had envisioned owning such a shop. He realized that a sweatshirt shop in Campus Town had the potential to meet all four of his criteria. Michael set up an appointment with Jayne Stoll, the owner of Shirts and More, to obtain information useful in getting his shop started. Because Jayne liked Michael and was intrigued by his entrepreneurial spirit, she answered many of Michael's questions.  In addition, Jayne provided information concerning the type of equipment Michael would need for his business and its average useful life. Jayne knows a competitor who is retiring and would like to sell his equipment. Michael can purchase the equipment at the beginning of 2008, and the owner is willing to give him terms of 50% due upon purchase and 50% due the quarter following the purchase. Michael decided to purchase the following equipment as of January 1, 2008.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |  | | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | |  | | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | |  | **Cost** | **Useful Life** | | --- | --- | --- | | Hand-operated press that applies ink to the shirt | $7,500 | 5 yrs. | | Light-exposure table | 1,350 | 10 yrs. | | Dryer conveyer belt that makes ink dry on the shirts | 2,500 | 10 yrs. | | Computer with graphics software and color printer | 3,500 | 4 yrs. | | Display furniture | 2,000 | 10 yrs. | | Used cash register | 500 | 5 yrs. | | | |  | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |   Michael has decided to use the sweatshirt supplier recommended by Jayne. He learned that a gross of good-quality sweatshirts to be silk-screened would cost $1,440. Jayne has encouraged Michael to ask the sweatshirt supplier for terms of 40% of a quarter's purchases to be paid in the quarter of purchase, with the remaining 60% of the quarter's purchases to be paid in the quarter following the purchase.  Michael also learned from talking with Jayne that the ink used in the silk-screen process costs approximately $0.75 per shirt.  Knowing that the silk-screen process is somewhat labor intensive, Michael plans to hire six college students to help with the process. Each one will work an average of 20 hours per week for 50 weeks during the year. Michael estimates total annual wages for the workers to be $72,000.  In addition, Michael will need one person to take orders, bill customers, and operate the cash register. Cary Sue Smith, who is currently Director of Student Development at Eastern University, has approached Michael about a job in sales. Cary Sue knows the officers of all of the student organizations on campus. In addition, she is very active in the community. Michael thinks Cary Sue can bring in a lot of business. In addition she also has the clerical skills needed for the position. Because of her contacts, Michael is willing to pay Cary Sue $1,200 per month plus a commission of 10 percent of sales. Michael estimates Cary Sue will spend 50% of the workday focusing on sales, and the remaining 50% will be spent on clerical and administrative duties.  Michael realizes that he will have difficulty finding a person skilled in computer graphics to generate the designs to be printed on the shirts. Jayne recently hired a graphics designer in that position for Shirts and More at a rate of $500 per month plus $0.10 for each shirt printed. Michael believes he can find a university graphics design student to work for the same rate Jayne is paying her designer.  Michael was fortunate to find a commercial building for rent near the university and the downtown area. The landlord requires a one-year lease. Although the monthly rent of $1,000 is more than Michael had anticipated paying, the building is nice, has adequate parking, and there is room for expansion. Michael anticipates that 75% of the building will be used in the silk-screen process and 25% will be used for sales.  Michael's fraternity brothers have encouraged him to advertise weekly in the Eastern University student newspaper. Upon inquiring, Michael found that a 3″ × 3″ ad would cost $25 per week. Michael also plans to run a weekly ad in the local newspaper that will cost him $75 per week.  Michael wants to sell a large number of quality shirts at a reasonable price. He estimates the selling price of each customized shirt to be $16. Jayne has suggested that he should ask customers to pay for 70% of their purchases in the quarter purchased and pay the additional 30% in the quarter following the purchases.  After talking with the insurance agent and the property valuation administrator in his municipality, Michael estimates that the property taxes and insurance on the machinery will cost $2,240 annually; property tax and insurance on display furniture and cash register will total $380 annually.  Jayne reminded Michael that maintenance of the machines is required for the silk-screen process. In addition, Michael realizes that he must consider the cost of utilities. The building Michael wants to rent is roughly the same size as the building occupied by Shirts and More. In addition, Shirts and More sells approximately the same number of shirts Michael plans to sell in his store. Therefore, Michael is confident that the maintenance and utility costs for his shop will be comparable to the maintenance and utility costs for Shirts and More, which are as follows within the relevant range of zero to 8,000 shirts.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |  | | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | |  | | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | |  | **Shirts Sold** | **Maintenance Costs** | **Utility Costs** | | --- | --- | --- | --- | | January | 2,000 | $1,716 | $1,100 | | February | 2,110 | 1,720 | 1,158 | | March | 2,630 | 1,740 | 1,171 | | April | 3,150 | 1,740 | 1,198 | | May | 5,000 | 1,758 | 1,268 | | June | 5,300 | 1,818 | 1,274 | | July | 3,920 | 1,825 | 1,205 | | August | 2,080 | 1,780 | 1,117 | | September | 8,000 | 1,914 | 1,400 | | October | 6,810 | 1,860 | 1,362 | | November | 6,000 | 1,855 | 1,347 | | December | 3,000 | 1,749 | 1,193 | | | |  | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |   Michael estimates the number of shirts to be sold in the first five quarters, beginning January 2008, to be:   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |  | | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | |  | | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | |  |  | | --- | --- | | First quarter, year 1 | 8,000 | | Second quarter, year 1 | 10,000 | | Third quarter, year 1 | 20,000 | | Fourth quarter, year 1 | 12,000 | | First quarter, year 2 | 18,000 | | | |  | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |   Seeing how determined his son was to become an entrepreneur, Michael's father offered to co-sign a note for an amount up to $20,000 to help Michael open his sweatshirt shop, Sweats Galore. However, when Michael and his father approached the loan officer at First Guarantee Bank, the loan officer asked Michael to produce the following budgets for 2008.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |  | | --- | | Sales budget | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | Schedule of expected collections from customers | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | Shirt purchases budget | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | Schedule of expected payments for purchases | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | Silk-screen labor budget | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | Selling and administrative expenses budget | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | Silk-screen overhead expenses budget | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | Budgeted income statement | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | Cash budget | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | Budgeted balance sheet | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |   The loan officer advised Michael that the interest rate on a 12-month loan would be 8%. Michael expects the loan to be taken out as of January 1, 2008.  Michael has estimated that his income tax rate will be 20%. He expects to pay the total tax due when his returns are filed in 2009. | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/opener/left_btm_1.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/opener/right_btm_1.gif | |
| http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |

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|  | **Exercises** |
| http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |
| http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |

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| |  | | --- | | **Instructions**  ***Answer the following questions.*** | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |  |  |  | | --- | --- | | **1** | Do you think it was important for Michael to stipulate his four criteria for the business, including the goal of generating a net income of at least $25,000 annually? Why or why not? | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |  |  |  | | --- | --- | | **2** | If Michael has sales of $12,000 during January of his first year of business, determine the amount of variable and fixed costs associated with utilities and maintenance using the high-low method for each. | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **3** | Using the format below, prepare a sales budget for the year ending 2008.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |  | | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | |  | | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  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**Year** | | Expected unit sales |  |  |  |  |  | | Unit selling price | x |  |  |  |  | | Budgeted sales revenue | $ |  |  |  |  | | | |  | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **4** | Prepare a schedule of expected collections from customers.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |  | | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | |  | | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 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Collections from Customers** | | | | | | **For the Year Ending December 31, 2008** | | | | | |  | **Quarter** | | | | |  | **1** | **2** | **3** | **4** | | Accounts receivable 1/1/08 | –0– |  |  |  | | First quarter |  |  |  |  | | Second quarter |  |  |  |  | | Third quarter |  |  |  |  | | Fourth quarter |  |  |  |  | | Total collections |  |  |  |  | | | |  | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- 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She encouraged Michael to maintain an ending inventory of shirts equal to 25% of the next quarter's sales.  Prepare a shirt purchases budget for shirts using the format provided.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |  | | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | |  | | --- | |  |  |  |  | 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http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **6** | Prepare a schedule of expected payments for purchases.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  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| Second quarter |  |  |  |  | | Third quarter |  |  |  |  | | Fourth quarter |  |  |  |  | | Total payments |  |  |  |  | | | |  | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **7** | Prepare a silk-screen labor budget.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |  | | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | |  | | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  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| --- | --- | --- | --- | --- | --- | --- | --- | | | **SWEATS GALORE** | | | | | | | --- | --- | --- | --- | --- | --- | | **Silk-Screen Labor Budget** | | | | | | | **For the Year Ending December 31, 2008** | | | | | | |  | **Quarter** | | | | | |  | **1** | **2** | **3** | **4** | **Year** | | Units to be produced |  |  |  |  |  | | Silk-screen labor hours per unit |  |  |  |  |  | | Total required silk-screen labor hours |  |  |  |  |  | | Silk-screen labor cost per hour |  |  |  |  |  | | Total silk-screen labor cost |  |  |  |  |  | | | |  | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  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 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |  | | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | |  | | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | 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--- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | | **SWEATS GALORE** | | | | | | | --- | --- | --- | --- | --- | --- | | **Selling and Administrative Expenses Budget** | | | | | | | **For the Year Ending December 31, 2008** | | | | | | |  | **Quarter** | | | | | |  | **1** | **2** | **3** | **4** | **Year** | | Variable expenses: |  |  |  |  |  | | Sales commissions |  |  |  |  |  | | Total variable expenses |  |  |  |  |  | | Fixed expenses: |  |  |  |  |  | | Advertising |  |  |  |  |  | | Rent |  |  |  |  |  | | Sales salaries |  |  |  |  |  | | Office salaries |  |  |  |  |  | | Depreciation |  |  |  |  |  | | Property taxes and insurance |  |  |  |  |  | | Total fixed expenses |  |  |  |  |  | | Total selling and administrative expenses |  |  |  |  |  | | | |  | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **9** | Prepare a silk-screen overhead expenses budget for Sweats Galore for the year ending December 31, 2008.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | 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|  |  | | Graphics design |  |  |  |  |  | | Property taxes and insurance |  |  |  |  |  | | Depreciation |  |  |  |  |  | | Total fixed expenses |  |  |  |  |  | | Total silk-screen overhead |  |  |  |  |  | | Direct silk-screen hours |  |  |  |  |  | | Overhead rate per silk-screen hour |  |  |  |  |  | | | |  | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **10** | Using the information found in the case and the previous budgets, prepare a budgeted income statement for Sweats Galore for the year ended December 31, 2008.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |  | | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | |  | | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | | **SWEATS GALORE** | | | --- | --- | | **Budgeted Income Statement** | | | **For the Year Ending December 31, 2008** | | | Sales |  | | Cost of goods sold |  | | Gross profit |  | | Selling and administrative expenses |  | | Income from operations |  | | Interest expense |  | | Income before income taxes |  | | Income tax expense |  | | Net income |  | | | |  | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 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 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |  | | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | |  | | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | 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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | | **SWEATS GALORE** | | | | | | --- | --- | --- | --- | --- | | **Cash Budget** | | | | | | **For the Year Ending December 31, 2008** | | | | | |  | **Quarter** | | | | |  | **1** | **2** | **3** | **4** | | Beginning cash balance |  |  |  |  | | Add: Receipts |  |  |  |  | | Collections from customers |  |  |  |  | | Total available cash |  |  |  |  | | Less: Disbursements |  |  |  |  | | Payments for shirt purchases |  |  |  |  | | Silk-screen labor |  |  |  |  | | Silk-screen overhead |  |  |  |  | | Selling and administrative expenses |  |  |  |  | | Payment for equipment purchase |  |  |  |  | | Total disbursements |  |  |  |  | | Excess (deficiency) of available cash |  |  |  |  | | over disbursements |  |  |  |  | | **Financing** |  |  |  |  | | Borrowings |  |  |  |  | | Ending cash balance |  |  |  |  | | | |  | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **12** | Using the information contained in the case and the previous budgets, prepare a budgeted balance sheet for Sweats Galore for the year ended December 31, 2008.   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | | **SWEATS GALORE** | | | --- | --- | | **Budgeted Balance Sheet** | | | **December 31, 2008** | | | **Assets** | | | Cash |  | | Accounts receivable |  | | Sweatshirt inventory |  | | Equipment |  | | Less: Accumulated depreciation |  | | Total assets |  | | **Liabilities and Owner's Equity** | | | Accounts payable |  | | Notes payable |  | | Interest payable |  | | Taxes payable |  | | Total liabilities |  | | Michael Woods, Capital |  | | Total liabilities and owner's equity |  | | | |  | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **13** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |  |  | | --- | --- | | **(a)** | Using the information contained in the case and the previous budgets, calculate the estimated contribution margin per unit for 2008. (*Hint:* Silk-screened labor and the taxes are both fixed costs.) | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | **(b)** | Calculate the total estimated fixed costs for 2008 (including interest and taxes). | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | **(c)** | Compute the break-even point in units and dollars for 2008. | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **14** | |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |  |  | | --- | --- | | **(a)** | Michael is very disappointed that he did not have an income of $25,000 for his first year of budgeted operations as he had wanted. How many shirts would Michael have had to sell in order to have had a profit of $25,000? (Ignore changes in income-tax expense.) | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | **(b)** | Why does Michael's net income differ from his ending cash balance? | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | | | | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif |  |  |  | | --- | --- | | **15** | Do you think it was a good idea to offer Cary Sue a salary plus 10% of sales? Why or why not? | | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | http://edugen.wiley.com/edugen/courses/crs1865/common/art/pixel.gif | |