|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Prepare a Cash Budget Under Two Alternatives** |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| Each autumn, as a hobby, Suzanne De Angelo weaves cotton place mats to sell at local |
| crafts shop. The mats sell for $ 20 per set of four. The shop charges a 10% commission and  |
| remits the net proceeds to De Angelo at the end of December. De Angelo has woven  |
| and sold 25 sets each of the last two years. She has enough cotton in inventory to make  |
| another 25 sets. She paid $7 per set for the cotton. De Angelo uses a four –harness loom  |
| that she purchased for cash exactly two years ago. It is depreciated at the rate of $10 |
| per month. The accounts payable relate to the cotton inventory and are payable by  |
| September 30. |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| De Angelo is considering buying an eight-harness loom so that she can weave more  |
| intricate patterns in linen. The new loom costs $ 1,000; it would be depreciated at $ 20 |
| per month. Her bank has agreed to lend her $ 1,000 at 18% interest, with $200 principle |
| plus accrued interest payable each December 31. De Angelo believes she can weave  |
| 15 linen place mat set in time for the Christmas rush if she does not weave any cotton |
| mats. She predicts that each linen set will sell for $50. Linen costs $18 per set. De Angelo’s |
| supplier will sell her linen on credit, payable December 31.  |  |  |
|  |  |  |  |  |  |  |  |  |
| De Angelo plans to keep he old loom whether or not she buys the new loom. The  |  |
| balance sheet for her weaving business at August 31 is as follows. |  |
|  |  |  |  |  |  |  |  |  |  |
| Suzane De Angelo, Weaver |
| Balance Sheet |
| for the period ending, August 31, 20XX |
|  |  |  |  |  |  |  |  |  |  |
|  | Current assets: |  |  |  |  | Current liabilities |  |  |
|  |  Cash |  |  | $25 |  |  Account payable | $74 |  |
|  |  Inventory of cotton |  | 175 |  |  |  |  |  |
|  |  |  |  | 200 |  |  |  |  |  |
|  | Fixed assets: |  |  |  |  |  Owner equity | 386 |  |
|  |  Loom |  |  | 500 |  |  |  |  |  |
|  |  Accumulated depreciation |  | (240) |  |  |  |  |  |
|  |  |  |  | 260 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
|  | Total assets |  |  | $460 |  |  |  | $460 |  |
|  |  |  |  |  |  |  |  |  |  |

|  |
| --- |
| Requirements: 1. Prepare a combined cash budget for the four months ending December 31, for two alternatives: weaving the place mats in cotton using the existing loom and weaving the place mats in linen using the new loom. For each alternative, prepare a budgeted income statement for the four months ending December 31, and a budgeted balance sheet at December 31.
2. On the basis of financial considerations only, what should De Angelo do? Give your reason.
3. Give What nonfinancial factors might De Angelo consider in her decision?
 |
|  |
|  |