

**Schedule F  
Budgeted Cash Receipts and Disbursements**

Item	October	November	December	4th Quarter
Receipts	\$46,000			
Disbursement	<u>53,280</u>	_____	_____	_____
Net cash increase				
Net cash decrease	<u>\$7,280</u>	=====	=====	=====

6. Complete Schedule F (assume that borrowings must be made in multiples of \$1,000).

**Schedule F  
Financing Required**

Item	October	November	December	Total
Beginning cash balance	\$12,000			
Net cash increase				
Net cash decrease	<u>7,280</u>	_____	_____	_____
Cash position before borrowing	4,720			
Minimum cash balance required	<u>8,000</u>	_____	_____	_____
Excess/Deficiency	(3,280)			
Borrowing required	4,000			
Interest payments				
Borrowing repaid				
Ending cash balance	<u>\$ 8,720</u>	=====	=====	=====

- What do you think is the most logical type of loan needed by Newport? Explain your reasoning.
- Prepare a budgeted income statement for the fourth quarter and a budgeted balance sheet as of December 31. Ignore income taxes.
- Some simplifications have been included in this problem. What complicating factors might arise in a typical business situation?

**§ 39 Budgetary slack and ethics.** (CMA) Marge Atkins, the budget manager at Norton Company, a manufacturer of infant furniture and carriages, is working on the budget for 2004. In discussions with Scott Ford, the sales manager, Atkins discovers that Ford's sales projections are lower than what Ford actually believes are achievable. When Atkins asks Ford about this, Ford says: "Well, we don't want to fall short of the sales projections, so we generally give ourselves a little breathing room by lowering the sales projections anywhere from 5 to 10 percent." Atkins also finds that Pete Granger, the production manager, makes similar adjustments. He pads budgeted costs, adding 10% to estimated costs.

**Required** As a management accountant, should Marge Atkins take the position that the behavior described by Scott Ford and Pete Granger is unethical? Refer to the Standards of Ethical Conduct for Management Accountants described in Chapter 1 (p. 18).

**Collaborative Learning Problem**

**8-40 Comprehensive review of budgeting, cash budgeting, chapter appendix.** Wilson Beverages bottles two soft drinks under license to Cadbury Schweppes at its Manchester plant. All inventory is in direct materials and finished goods at the end of each working day. There is no work-in-process inventory.

The two soft drinks bottled by Wilson Beverages are lemonade and diet lemonade. The syrup for both soft drinks is purchased from Cadbury Schweppes.

Wilson Beverages uses a lot size of 1,000 cases as the unit of analysis in its budgeting. (Each case contains 24 bottles.) Direct materials are expressed in terms of lots, in which one lot of direct materials is the input necessary to yield one lot (1,000 cases) of beverage. The following purchase prices are forecast for direct materials in 2005:

	Lemonade	Diet Lemonade
Syrup	\$1,200 per lot	\$1,100 per lot
Containers (bottles, caps, etc.)	\$1,000 per lot	\$1,000 per lot
Packaging	\$ 800 per lot	\$ 800 per lot

All direct material purchases are on account.

The two soft drinks are bottled using the same equipment. The only difference in the bottling process for the two soft drinks is the syrup.

Summary data used in developing budgets for 2005 are

1. Sales

- Lemonade, 1,080 lots at \$9,000 selling price per lot
- Diet lemonade, 540 lots at \$8,500 selling price per lot

All sales are on account.

2. Beginning (January 1, 2005) inventory of direct materials

- Syrup for lemonade, 80 lots at \$1,100 purchase price per lot
- Syrup for diet lemonade, 70 lots at \$1,000 purchase price per lot
- Containers, 200 lots at \$950 purchase price per lot
- Packaging, 400 lots at \$900 purchase price per lot

3. Beginning (January 1, 2005) inventory of finished goods

- Lemonade, 100 lots at \$5,300 per lot
- Diet lemonade, 50 lots at \$5,200 per lot

4. Target ending (December 31, 2005) inventory of direct materials

- Syrup for lemonade, 30 lots                      Containers, 100 lots
- Syrup for diet lemonade, 20 lots                Packaging, 200 lots

5. Target ending (December 31, 2005) inventory of finished goods

- Lemonade, 20 lots
- Diet lemonade, 10 lots

6. Each lot requires 20 direct manufacturing labor-hours at the 2005 budgeted rate of \$25 per hour. Direct manufacturing labor costs are paid at the end of each month.

7. Variable manufacturing overhead is forecast to be \$600 per hour of bottling time; bottling time is the time the filling equipment is in operation. It takes two hours to bottle one lot of lemonade and two hours to bottle one lot of diet lemonade. Assume all variable manufacturing overhead costs are paid during the same month when incurred.

Fixed manufacturing overhead is forecast to be \$1,200,000 for 2005. Included in the fixed manufacturing overhead forecast is \$400,000 for depreciation. All manufacturing overhead costs are paid as incurred.

8. Hours of budgeted bottling time is the sole cost-allocation base for all fixed manufacturing overhead.

9. Administration costs are forecast to be 10% of the cost of goods manufactured for 2005. Marketing costs are forecast to be 12% of revenues for 2005. Distribution costs are forecast to be 8% of revenues for 2005. All these costs are paid during the month when incurred. Assume there are no depreciation or amortization expenses.

10. Budgeted beginning balances on January 1, 2005:

Accounts receivable (from sales)	\$550,000
Accounts payable (for direct materials)	300,000
Cash	100,000

11. Budgeted ending balances on December 31, 2005:

Accounts receivable (from sales)	\$600,000
Accounts payable (for direct materials)	400,000

12. Budgeted equipment purchase in May

\$1,350,000

13. Estimated income tax expense for 2005

\$ 625,000

Assume Wilson Beverages uses the first-in, first-out method for costing all inventories. On the basis of the preceding data, prepare the following budgets for 2005:

- |   |   |
|---|---|
| a. Revenues budget (in dollars)                             | g. Ending finished goods inventory budget |
| b. Production budget (in units)                             | h. Cost of goods sold budget              |
| c. Direct materials usage budget (in units and dollars)     | i. Marketing costs budget                 |
| d. Direct materials purchases budget (in units and dollars) | j. Distribution costs budget              |
| e. Direct manufacturing labor budget                        | k. Administration costs budget            |
| f. Manufacturing overhead costs budget                      | l. Budgeted income statement              |
|   | m. Cash budget                            |

**Required**