

	April	May	June	Quarter
Less cash disbursements:				
For inventory	47,850			
For expenses	13,300			
For equipment	1,500			
Total cash disbursements	<u>62,650</u>			
Excess (deficiency) of cash	1,350			
Financing:				
Etc.				

5. Prepare an absorption costing income statement, similar to the one shown in Schedule 9 in the text, for the quarter ended June 30.
6. Prepare a balance sheet as of June 30.

PROBLEM 9-20 Completing a Master Budget [LO2, LO4, LO7, LO8, LO9, LO10]

Hillyard Company, an office supplies specialty store, prepares its master budget on a quarterly basis. The following data have been assembled to assist in preparing the master budget for the first quarter:



- a. As of December 31 (the end of the prior quarter), the company's general ledger showed the following account balances:

	Debits	Credits
Cash	\$ 48,000	
Accounts Receivable	224,000	
Inventory	60,000	
Buildings and Equipment (net)	370,000	
Accounts Payable		\$ 93,000
Capital Stock		500,000
Retained Earnings		109,000
	<u>\$702,000</u>	<u>\$702,000</u>

- b. Actual sales for December and budgeted sales for the next four months are as follows:

December (actual)	\$280,000
January	\$400,000
February	\$600,000
March	\$300,000
April	\$200,000

- c. Sales are 20% for cash and 80% on credit. All payments on credit sales are collected in the month following sale. The accounts receivable at December 31 are a result of December credit sales.
- d. The company's gross margin is 40% of sales. (In other words, cost of goods sold is 60% of sales.)
- e. Monthly expenses are budgeted as follows: salaries and wages, \$27,000 per month; advertising, \$70,000 per month; shipping, 5% of sales; other expenses, 3% of sales. Depreciation, including depreciation on new assets acquired during the quarter, will be \$42,000 for the quarter.
- f. Each month's ending inventory should equal 25% of the following month's cost of goods sold.
- g. One-half of a month's inventory purchases is paid for in the month of purchase; the other half is paid in the following month.
- h. During February, the company will purchase a new copy machine for \$1,700 cash. During March, other equipment will be purchased for cash at a cost of \$84,500.
- i. During January, the company will declare and pay \$45,000 in cash dividends.
- j. The company must maintain a minimum cash balance of \$30,000. An open line of credit is available at a local bank for any borrowing that may be needed during the quarter. All borrowing is done at the beginning of a month, and all repayments are made at the end of a month. Borrowings and repayments of principal must be in multiples of \$1,000. Interest is paid only at the time of payment of principal. The annual interest rate is 12%. (Figure interest on whole months, e.g., $\frac{3}{12}$, $\frac{4}{12}$.)