



#1

PROBLEMS

The company is planning its cash needs for the third quarter of 2012, and the following information is available to assist in preparing a cash budget. Budgeted income statements for July through October 2012 are as follows:

	July	August	September	October
Sales	\$18,000	\$24,000	\$28,000	\$36,000
Cost of goods sold	(10,000)	(14,000)	(16,000)	(20,000)
Gross profit	8,000	10,000	12,000	16,000
Less other expenses				
Selling	2,300	3,000	3,400	4,200
Administrative	2,600	3,000	3,200	3,600
Total	(4,900)	(6,000)	(6,600)	(7,800)
Net income	<u>\$ 3,100</u>	<u>\$ 4,000</u>	<u>\$ 5,400</u>	<u>\$ 8,200</u>

Additional information follows:

1. Other expenses, which are paid monthly, include \$1,000 of depreciation per month.
2. Sales are 30 percent for cash and 70 percent on credit.
3. Credit sales are collected 20 percent in the month of sale, 70 percent one month after sale, and 10 percent two months after sale. May sales were \$15,000, and June sales were \$16,000.
4. Merchandise is paid for 50 percent in the month of purchase; the remaining 50 percent is paid in the following month. Accounts payable for merchandise at June 30 totaled \$6,000.
5. The company maintains its ending inventory levels at 25 percent of the cost of goods to be sold in the following month. The inventory at June 30 is \$2,500.
6. An equipment note of \$5,000 per month is being paid through August.
7. The company must maintain a cash balance of at least \$5,000 at the end of each month. The cash balance on June 30 is \$5,100.
8. The company can borrow from its bank as needed. Borrowings and repayments must be in multiples of \$100. All borrowings take place at the beginning of a month, and all repayments are made at the end of a month. When the principal is repaid, interest on the repayment is also paid. The interest rate is 12 percent per year.

Required

- a. Prepare a monthly schedule of budgeted operating cash receipts for July, August, and September.
- b. Prepare a monthly purchases budget and a schedule of budgeted cash payments for purchases for July, August, and September.
- c. Prepare a monthly cash budget for July, August, and September. Show borrowings from the company's bank and repayments to the bank as needed to maintain the minimum cash balance.