

Most expenses were constant from month to month. An exception was supplies, which were purchased twice a year in December and June. In 20X5, SLLO expects to purchase \$200,000 of supplies in June and \$700,000 in December on terms of net, 30 days. The supplies inventory at the end of December was expected to be \$600,000. Depreciation expense of \$500,000 was planned for 20X5, and other expenses were expected to run at a steady rate of \$710,000 a month throughout the year, of which \$700,000 was payroll costs. Salaries and wages were paid on the Monday of the first week following the end of the month. The remaining \$10,000 of other expenses were paid as incurred.

The major portion of the new equipment to be installed in 20X5 was to be delivered in September; payments totaling \$400,000 would be made in four equal monthly installments beginning in September. In addition, small equipment purchases are expected to run \$20,000 per month throughout the year. They will be paid for on delivery.

In late 20X2, SLLO had borrowed \$4 million (classified as a mortgage payable) from Farmers' Life Insurance Company. The SLLO is repaying the loan over 16 years, in equal principal payments in June and December of each year. Interest at 8% annually is also paid on the unpaid balance on each of these dates. Total interest payments for 20X5, according to Ms. Morrison's calculations, would be \$275,000.

Interest on the working capital loan from South Utah National Bank was at an annual rate of 10%. Interest is accrued quarterly but paid annually; payment for 20X4's interest would be made on January 10, 20X5, and that for 20X5's interest would be made on January 10, 20X6. Working capital loans are taken out on the first day of the quarter that funds are needed, and they are repaid on the last day of the quarter when extra funds are generated. SLLO has tried to keep a minimum cash balance of \$200,000 at all times, even if loan requirements do not require it.

1. Compute the cash inflows and outflows for each quarter of 20X5. What are SLLO's loan requirements each quarter?
2. Prepare a projected income statement and balance sheet for SLLO for 20X5.
3. What financing strategy would you recommend for SLLO?

7-44 Cash Budgeting for a Hospital

Highline Hospital provides a wide range of health services in its community. Highline's board of directors has authorized the following capital expenditures:

Intra-aortic balloon pump	\$1,400,000
Computed tomography scanner	850,000
X-ray equipment	550,000
Laboratory equipment	<u>1,200,000</u>
Total	<u>\$4,000,000</u>

The expenditures are planned for October 1, 20X7, and the board wishes to know the amount of borrowing, if any, necessary on that date. Rebecca Singer, hospital controller, has gathered the following information to be used in preparing an analysis of future cash flows.

Billings, made in the month of service, for 20X7 are shown next, with actual amounts for January–June and estimated amounts for July–December:

Month	Amount Billed
January	\$5,300,000
February	5,300,000
March	5,400,000
April	5,400,000
May	5,700,000
June	6,000,000
July (estimated)	5,800,000
August (estimated)	6,200,000
September (estimated)	6,600,000
October (estimated)	6,800,000
November (estimated)	7,000,000
December (estimated)	6,600,000