

Problem 20-1A Preparation and analysis of merchandise purchases budgets L.O. C2, P1

Pinsetter's Supply is a merchandiser of three different products. The company's February 28 inventories are footwear, 20,000 units; sports equipment, 80,500 units; and apparel, 49,000 units. Management believes that excessive inventories have accumulated for all three products. As a result, a new policy dictates that ending inventory in any month should equal 31% of the expected unit sales for the following month. Expected sales in units for March, April, May, and June follow.

Budgeted Sales in Units

	March	April	May	June
Footwear	15,000	27,000	32,000	33,500
Sports equipment	69,000	88,500	94,500	90,500
Apparel	40,000	38,000	33,500	22,000

Required:

1. Prepare a merchandise purchases budget (in units) for each product for each of the months of March, April, and May. (Amounts to be deducted should be indicated with a minus sign. Omit the "%" sign in your response.)

PINSETTER'S SUPPLY
Merchandise Purchases Budgets
For March, April, and May

	March	April	May
FOOTWEAR			
Budgeted sales for next month	0	0	0
Ratio of ending inventory to future sales	0 %	0 %	0 %
Budgeted ending inventory	0	0	0
Add: Budgeted sales	0	0	0
Required units of available merchandise	0	0	0
Less: Actual (or budgeted) beginning inventory	0	0	0
Budgeted purchases	0	0	0
SPORTS EQUIPMENT			
Budgeted sales for next month	0	0	0
Ratio of ending inventory to future sales	0 %	0 %	0 %
Budgeted ending inventory	0	0	0
Add: Budgeted sales	0	0	0
Required units of available merchandise	0	0	0
Less: Actual (or budgeted) beginning inventory	0	0	0
Budgeted purchases	0	0	0
APPAREL			
Budgeted sales for next month	0	0	0
Ratio of ending inventory to future sales	0 %	0 %	0 %
Budgeted ending inventory	0	0	0
Add: Budgeted sales	0	0	0
Required units of available merchandise	0	0	0
Less: Actual (or budgeted) beginning inventory	0	0	0
Budgeted purchases	0	0	0

Worksheet

Problem 20-1A Preparation and analysis of merchandise purchases budgets L.O. C2, P1

Learning Objective: 20-C2 Describe a master budget and the process of preparing it.

Learning Objective: 20-P1 Prepare each component of a master budget and link each to the budgeting process.

Problem 20-3A Preparation and analysis of cash budgets with supporting inventory and purchases budgets L.O. C2, P2
 [The following information applies to the questions displayed below.]

Abacus Company sells its product for \$190 per unit. Its actual and projected sales follow.

	Units	Dollars
April (actual)	4,000	\$760,000
May (actual)	3,000	570,000
June (budgeted)	6,500	1,235,000
July (budgeted)	6,000	1,140,000
August (budgeted)	4,400	836,000

All sales are on credit. Recent experience shows that 30% of credit sales is collected in the month of the sale, 40% in the month after the sale, 26% in the second month after the sale, and 4% proves to be uncollectible. The product's purchase price is \$110 per unit. All purchases are payable within 13 days. Thus, 60% of purchases made in a month is paid in that month and the other 40% is paid in the next month. The company has a policy to maintain an ending monthly inventory of 22% of the next month's unit sales plus a safety stock of 190 units. The April 30 and May 31 actual inventory levels are consistent with this policy. Selling and administrative expenses for the year are \$1,692,000 and are paid evenly throughout the year in cash. The company's minimum cash balance at month-end is \$88,000. This minimum is maintained, if necessary, by borrowing cash from the bank. If the balance exceeds \$88,000, the company repays as much of the loan as it can without going below the minimum. This type of loan carries an annual 12% interest rate. On May 31, the loan balance is \$40,500, and the company's cash balance is \$88,000.

Section Break

Learning Objective: 20-P2 Link both operating and capital expenditures budgets to budgeted financial statements.

Problem 20-3A Preparation and analysis of cash budgets with supporting inventory and purchases budgets L.O. C2, P2

Learning Objective: 20-C2 Describe a master budget and the process of preparing it.

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Problem 20-3A Part 1

Required:

1. Prepare a table that shows the computation of cash collections of its credit sales (accounts receivable) in each of the months of June and July. (Omit the "\$" & "%" signs in your response.)

Cash collections of credit sales (accounts receivable)					
From sales in	Total	% Collected	June	July	
April	\$	%	\$		
May				\$	
June					
July					
Total collected			\$	\$	

Worksheet

Learning Objective: 20-P2 Link both operating and capital expenditures budgets to budgeted financial statements.

Problem 20-3A Part 1

Learning Objective: 20-C2 Describe a master budget and the process of preparing it.

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Problem 20-3A Part 2

2. Prepare a table that shows the computation of budgeted ending inventories (in units) for April, May, June, and July. (Omit the "%" sign in your response.)

	April	May	June	July
Next month's budgeted sales				
Ratio of inventory to future sales	%	%	%	%

Budgeted "base" ending inventory				
Plus safety stock				
Budgeted ending inventory				

Worksheet

Learning Objective: 20-P2 Link both operating and capital expenditures budgets to budgeted financial statements.

Problem 20-3A Part 2

Learning Objective: 20-C2 Describe a master budget and the process of preparing it.

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Problem 20-3A Part 3

3. Prepare the merchandise purchases budget for May, June, and July. Report calculations in units and then show the dollar amount of purchases for each month. (Amounts to be deducted should be indicated with a minus sign. Omit the "\$" sign in your response.)

ABACUS COMPANY
Merchandise Purchases Budgets
For May, June, and July

	May	June	July
Budgeted ending inventory	0	0	0
Add: Budgeted sales	0	0	0
Required units of available merchandise	0	0	0
Deduct: Beginning inventory	0	0	0
Budgeted purchases	0	0	0
Budgeted cost per unit	\$ 0	\$ 0	\$ 0
Budgeted cost of merchandise purchases	\$ 0	\$ 0	\$ 0

Worksheet

Learning Objective: 20-P2 Link both operating and capital expenditures budgets to budgeted financial statements.

Problem 20-3A Part 3

Learning Objective: 20-C2 Describe a master budget and the process of preparing it.

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Problem 20-3A Part 4

4. Prepare a table showing the computation of cash payments on product purchases for June and July. (Round your answers to the nearest dollar amount. Omit the "\$" & "%" signs in your response.)

Cash payments on product purchases (for June and July)

From purchases in	Total	% Paid	June	July
May	\$	%	\$	
June				\$
July				
Total Paid			\$	\$

Worksheet

Learning Objective: 20-P2 Link both operating and capital expenditures budgets to budgeted financial statements.

Problem 20-3A Part 4

Learning Objective: 20-C2 Describe a master budget and the process of preparing it.

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Problem 20-3A Part 5

5. Prepare a cash budget for June and July, including any loan activity and interest expense. Compute the loan balance at the end of each month. (Leave no cells blank - be certain to enter "0" wherever required. Input all amounts as positive values except preliminary cash balance and any repayments to bank which should be indicated by a minus sign. Round intermediate calculations and final answers to the nearest dollar amount. Omit the "\$" sign in your response.)

ABACUS COMPANY Cash Budget June and July		
	June	July
Beginning cash balance	\$	\$
Cash receipts from customers		
<hr/>		
Total available cash		
Cash disbursements		
Payments on purchases		
Selling and administrative expenses		
Interest expense		
<hr/>		
Total disbursements		
<hr/>		
Preliminary cash balance		
Additional loan from bank		
Repayment of loan to bank		
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Ending cash balance	\$	\$
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Ending loan balance	\$	\$

Worksheet

Learning Objective: 20-P2 Link both operating and capital expenditures budgets to budgeted financial statements.

Problem 20-3A Part 5

Learning Objective: 20-C2 Describe a master budget and the process of preparing it.

Problem 20-5A Preparation of a complete master budget L.O. C2, P1, P2
[The following information applies to the questions displayed below.]

Near the end of 2011, the management of Simid Sports Co., a merchandising company, prepared the following estimated balance sheet for December 31, 2011.

SIMID SPORTS COMPANY Estimated Balance Sheet December 31, 2011		
Assets		
Cash		\$ 35,500
Accounts receivable		520,000
Inventory		105,000
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Total current assets		660,500
Equipment	\$ 540,000	
Less accumulated depreciation	67,500	472,500
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Total assets		\$ 1,133,000
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Liabilities and Equity		
Accounts payable	\$ 375,000	
Bank loan payable	16,000	

Taxes payable (due 3/15/2012)	90,000	
	<u> </u>	
Total liabilities		\$ 481,000
Common stock	472,000	
Retained earnings	180,000	
	<u> </u>	
Total stockholders' equity		652,000
		<u> </u>
Total liabilities and equity		\$ 1,133,000

To prepare a master budget for January, February, and March of 2012, management gathers the following information.

- a. Simid Sports' single product is purchased for \$20 per unit and resold for \$59 per unit. The expected inventory level of 5,250 units on December 31, 2011, is more than management's desired level for 2012, which is 20% of the next month's expected sales (in units). Expected sales are: January, 7,250 units; February, 9,250 units; March, 10,750 units; and April, 9,000 units.
- b. Cash sales and credit sales represent 25% and 75%, respectively, of total sales. Of the credit sales, 66% is collected in the first month after the month of sale and 34% in the second month after the month of sale. For the December 31, 2011, accounts receivable balance, \$130,000 is collected in January and the remaining \$390,000 is collected in February.
- c. Merchandise purchases are paid for as follows: 20% in the first month after the month of purchase and 80% in the second month after the month of purchase. For the December 31, 2011, accounts payable balance, \$80,000 is paid in January and the remaining \$295,000 is paid in February.
- d. Sales commissions equal to 20% of sales are paid each month. Sales salaries (excluding commissions) are \$78,000 per year.
- e. General and administrative salaries are \$144,000 per year. Maintenance expense equals \$2,000 per month and is paid in cash.
- f. Equipment reported in the December 31, 2011, balance sheet was purchased in January 2011. It is being depreciated over eight years under the straight-line method with no salvage value. The following amounts for new equipment purchases are planned in the coming quarter: January, \$37,000; February, \$94,000; and March, \$29,500. This equipment will be depreciated under the straight-line method over eight years with no salvage value. A full month's depreciation is taken for the month in which equipment is purchased.
- g. The company plans to acquire land at the end of March at a cost of \$170,000, which will be paid with cash on the last day of the month.
- h. Simid Sports has a working arrangement with its bank to obtain additional loans as needed. The interest rate is 12% per year, and interest is paid at each month-end based on the beginning balance. Partial or full payments on these loans can be made on the last day of the month. The company has agreed to maintain a minimum ending cash balance of \$33,228 in each month.
- i. The income tax rate for the company is 34%. Income taxes on the first quarter's income will not be paid until April 15.

Required:

Prepare a master budget for each of the first three months of 2012; include the following component budgets:

<p>Section Break</p> <p><i>Problem 20-5A Preparation of a complete master budget L.O. C2, P1, P2</i></p>	<p>Learning Objective: 20-C2 Describe a master budget and the process of preparing it.</p> <p>Learning Objective: 20-P1 Prepare each component of a master budget and link each to the budgeting process.</p>	<p>Learning Objective: 20-P2 Link both operating and capital expenditures budgets to budgeted financial statements.</p>
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Problem 20-5A Part 1

1. Monthly sales budgets. (Omit the "\$" sign in your response.)

	SIMID SPORTS CO.		
	Sales Budget		
	January, February, and March 2012		
	Budgeted	Budgeted	Budgeted
	Units	Unit Price	Total Dollars
January 2012	<input type="text"/>	\$ <input type="text"/>	\$ <input type="text"/>
February 2012	<input type="text"/>	<input type="text"/>	<input type="text"/>
March 2012	<input type="text"/>	<input type="text"/>	<input type="text"/>
Total for the first quarter	<input type="text"/>		\$ <input type="text"/>

Worksheet

Learning Objective: 20-P1 Prepare each component of a master budget and link each to the budgeting process.

Learning Objective: 20-P2 Link both operating and

Learning Objective: 20-C2 Describe a master budget