

BMAL 530: 2014 Spring D

Pearlean Jones

Homework 7

instructions | help

[The following information applies to the questions displayed below.]

Near the end of 2013, the management of Dimsdale Sports Co., a merchandising company, prepared the following estimated balance sheet for December 31, 2013.

DIMSDALE SPORTS COMPANY		
Estimated Balance Sheet		
December 31, 2013		
Assets		
Cash	\$ 35,500	
Accounts receivable	520,000	
Inventory	100,000	
Total current assets		655,500
Equipment	\$ 539,000	
Less accumulated depreciation	67,375	
Equipment, net		471,625
Total assets		\$ 1,127,125
Liabilities and Equity		
Accounts payable	\$ 340,000	
Bank loan payable	14,000	
Taxes payable (due 3/15/2014)	91,000	
Total liabilities		\$ 445,000
Common stock	470,000	
Retained earnings	212,125	
Total stockholders' equity		682,125
Total liabilities and equity		\$ 1,127,125

To prepare a master budget for January, February, and March of 2014, management gathers the following information.

- Dimsdale Sports' single product is purchased for \$20 per unit and resold for \$53 per unit. The expected inventory level of 5,000 units on December 31, 2013, is more than management's desired level for 2014, which is 20% of the next month's expected sales (in units). Expected sales are: January, 7,500 units; February, 8,750 units; March, 10,750 units; and April, 9,000 units. ⁵⁴ 11,000 (March)
- Cash sales and credit sales represent 20% and 80%, respectively, of total sales. Of the credit sales, 59% is collected in the first month after the month of sale and 41% in the second month after the month of sale. For the December 31, 2013, accounts receivable balance, \$130,000 is collected in January and the remaining \$390,000 is collected in February.
- 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, 2013, accounts payable balance, \$85,000 is paid in January and the remaining \$255,000 is paid in February.
- Sales commissions equal to 20% of sales are paid each month. Sales salaries (excluding commissions) are \$84,000 per year.
- General and administrative salaries are \$144,000 per year. Maintenance expense equals \$2,000 per month and is paid in cash.
- Equipment reported in the December 31, 2013, balance sheet was purchased in January 2013. 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, \$95,000; 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.
- The company plans to acquire land at the end of March at a cost of \$165,000, which will be paid with cash on the last day of the month.
- Dimsdale 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 \$8,360 in each month.
- The income tax rate for the company is 41%. Income taxes on the first quarter's income will not be paid until April 15.

Required: