[redacted]

Problems (Group A)

P21-20A *(L.OBJ. 1, 2, 6)* **Why managers use budgets, understanding the components of the master budget, and preparing performance reports for responsibility centers [50–60 min]**

Doggy World operates a chain of pet stores in the Midwest. The manager of each store reports to the regional manager, who, in turn, reports to the headquarters in Milwaukee, Wisconsin. The *actual* income statements for the Dayton store, the Ohio region (including the Dayton store), and the company as a whole (including the Ohio region) for July 2011 are as follows:

DOGGY WORLD
Income Statement
For the month ended July 31, 2011

	Dayton	Ohio	Companywide
Revenue	$ 158,400	$ 1,760,000	$ 4,400,000
Expenses:			
Regional manager/headquarters office	$ –	$ 58,000	$ 122,000
Cost of materials	85,536	880,000	1,760,000
Salary expense	41,184	440,000	1,100,000
Depreciation expense	7,800	91,000	439,000
Utilities expense	4,000	46,600	264,000
Rent expense	2,500	34,500	178,000
Total expenses	141,020	1,550,100	3,863,000
Operating income	$ 17,380	$ 209,900	$ 537,000

Budgeted amounts for July were as follows:

DOGGY WORLD Budgeted Income Statement For the month ended July 31, 2011			
	Dayton	Ohio	Companywide
Revenue	$ 173,400	$ 1,883,000	$ 4,650,000
Expenses:			
Regional manager/headquarters office	$ –	$ 64,600	$ 124,000
Cost of materials	91,902	1,035,650	2,092,500
Salary expense	41,616	470,750	1,162,500
Depreciation expense	7,800	87,500	446,000
Utilities expense	4,900	54,600	274,000
Rent expense	3,400	32,700	169,000
Total expenses	149,618	1,745,800	4,268,000
Operating income	$ 23,782	$ 137,200	$ 382,000

Requirements

1. Prepare a report for July 2011 that shows the performance of the Dayton store, the Ohio region, and the company as a whole. Follow the format of Exhibit 21-20.
2. As the Ohio regional manager, would you investigate the Dayton store on the basis of this report? Why or why not?
3. Should Doggy World prepare the master budget? Briefly discuss the benefits of budgeting. Base your discussion on Doggy World's performance report.

P21-21A *(L.OBJ. 2)* **Preparing an operating budget [30 min]**
The budget committee of Clipboard Office Supply has assembled the following data. As the business manager, you must prepare the budgeted income statements for May and June 2011.

Requirement

a. Sales in April were $50,000. You forecast that monthly sales will increase 2.0% in May and 2.4% in June.
b. Clipboard maintains inventory of $9,000 plus 25% of the sales revenue budgeted for the following month. Monthly purchases average 50% of sales revenue in that same month. Actual inventory on April 30 is $13,000. Sales budgeted for July are $65,000.
c. Monthly salaries amount to $3,000. Sales commissions equal 4% of sales for that month. Combine salaries and commissions into a single figure.
d. Other monthly expenses are as follows:

Rent expense	$2,600, paid as incurred
Depreciation expense	$300
Insurance expense	$200, expiration of prepaid amount
Income tax	20% of operating income

1. Prepare Clipboard Office Supply's budgeted income statements for May and June. Show cost of goods sold computations. Round *all* amounts to the nearest $100. (Round amounts ending in $50 or more upward, and amounts ending in less than $50 downward.) For example, budgeted May sales are $51,000 ($50,000 × 1.02), and June sales are $52,200 ($51,000 × 1.024)

Note: Problem 21-21A must be completed before attempting Problem 21-22A.

P21-22A *(L.OBJ. 4)* **Preparing a financial budget [30 min]**

Refer to P21-21A. Clipboard Office Supply's sales are 75% cash and 25% credit. (Use the rounded sales values.) Credit sales are collected in the month after sale. Inventory purchases are paid 25% in the month of purchase and 75% the following month. Salaries and sales commissions are also paid half in the month earned and half the next month. Income tax is paid at the end of the year.

The April 30, 2011, balance sheet showed the following balances:

Cash	$ 25,000
Accounts payable	53,000
Salaries and commissions payable	2,500

Requirements

1. Prepare schedules of (a) budgeted cash collections, (b) budgeted cash payments for purchases, and (c) budgeted cash payments for operating expenses. Show amounts for each month and totals for May and June. *Round* your computations to the nearest dollar.
2. Prepare a cash budget similar to Exhibit 21-14. If no financing activity took place, what is the budgeted cash balance on June 30, 2011?

[redacted]

[redacted]

[redacted]

[redacted]