

*Required:*

1. Prepare a sales budget, by month and in total, for the third quarter. (Show your budget in both pairs of swim fins and dollars.) Also prepare a schedule of expected cash collections, by month and in total, for the third quarter.
2. Prepare a production budget for each of the months July through October.
3. Prepare a direct materials budget for geico compound, by month and in total, for the third quarter. Also prepare a schedule of expected cash disbursements for geico compound, by month and in total, for the third quarter.

**eXcel**

**PROBLEM 9-20 Cash Budget; Income Statement; Balance Sheet** [LO 9-2, LO 9-4, LO 9-8, LO 9-9, LO 9-10]

The balance sheet of Phototec, Inc., a distributor of photographic supplies, as of May 31 is given below:

| Phototec, Inc.<br>Balance Sheet<br>May 31          |                  |
|----------------------------------------------------|------------------|
| Assets                                             |                  |
| Cash .....                                         | \$ 8,000         |
| Accounts receivable .....                          | 72,000           |
| Inventory .....                                    | 30,000           |
| Buildings and equipment, net of depreciation ..... | 500,000          |
| Total assets .....                                 | <u>\$610,000</u> |
| Liabilities and Stockholders' Equity               |                  |
| Accounts payable .....                             | \$ 90,000        |
| Note payable .....                                 | 15,000           |
| Capital stock .....                                | 420,000          |
| Retained earnings .....                            | 85,000           |
| Total liabilities and stockholders' equity .....   | <u>\$610,000</u> |

The company is in the process of preparing a budget for June and has assembled the following data:

- a. Sales are budgeted at \$250,000 for June. Of these sales, \$60,000 will be for cash; the remainder will be credit sales. One-half of a month's credit sales are collected in the month the sales are made, and the remainder is collected the following month. All of the May 31 accounts receivable will be collected in June.
- b. Purchases of inventory are expected to total \$200,000 during June. These purchases will all be on account. Forty percent of all inventory purchases are paid for in the month of purchase; the remainder are paid in the following month. All of the May 31 accounts payable to suppliers will be paid during June.
- c. The June 30 inventory balance is budgeted at \$40,000.
- d. Selling and administrative expenses for June are budgeted at \$51,000, exclusive of depreciation. These expenses will be paid in cash. Depreciation is budgeted at \$2,000 for the month.
- e. The note payable on the May 31 balance sheet will be paid during June. The company's interest expense for June (on all borrowing) will be \$500, which will be paid in cash.
- f. New warehouse equipment costing \$9,000 will be purchased for cash during June.
- g. During June, the company will borrow \$18,000 from its bank by giving a new note payable to the bank for that amount. The new note will be due in one year.

*Required:*

1. Prepare a cash budget for June. Support your budget with a schedule of expected cash collections from sales and a schedule of expected cash disbursements for inventory purchases.
2. Prepare a budgeted income statement for June. Use the absorption costing income statement format as shown in Schedule 9.
3. Prepare a budgeted balance sheet as of June 30.