FIT-FOR-LIFE FOODS INC.
BALANCE SHEET

	20x4 Actual	20x5 Budgeted
Assets:		
Cash	$ 20,000	$ 34,000
Accounts receivable	120,000	136,000
Inventory	600,000	730,000
Plant and equipment (net of accumulated depreciation)	3,260,000	3,200,000
Total	$4,000,000	$4,100,000
Liabilities:		
Accounts payable	$ 220,000	$ 244,000
Long-term debt	640,000	616,000
Stockholders' equity:		
Common stock	800,000	800,000
Retained earnings	2,340,000	2,440,000
Total	$4,000,000	$4,100,000

The company paid dividends of $55,440 in 20x4, and the expected tax rate for 20x5 is 34 percent.

Required:

1. Describe the role of budgeting in a firm's strategic planning.
2. For each of the financial objectives established by the board of directors and the president of Fit-for-Life Foods Inc. determine whether John Winslow's budget attains these objectives. Support your conclusion in each case by presenting appropriate calculations, and use the following format for your answer.

Objective	Attained/Not Attained	Calculations

3. Explain why the adjustments contemplated by John Winslow are unethical, citing specific standards of ethical conduct for management accountants.

(CMA, adapted)

Problem 9–42
Comprehensive Master Budget; Borrowing; Acquisition of Automated Material-Handling System
(LO 9-2, 9-3, 9-5, 9-6)

1. Sales on account, first quarter: $2,184,600
3. Purchases: first quarter: $2,103,640
5. Cash receipts, first quarter: $2,734,060
7. Net income: $321,312

"We really need to get this new material-handling equipment in operation just after the new year begins. I hope we can finance it largely with cash and marketable securities, but if necessary we can get a short-term loan down at MetroBank." This statement by Beth Davies-Lowry, president of Global Electronics Company, concluded a meeting she had called with the firm's top management. Global is a small, rapidly growing wholesaler of consumer electronic products. The firm's main product lines are small kitchen appliances and power tools. Marcia Wilcox, Global Electronics' general manager of marketing, has recently completed a sales forecast. She believes the company's sales during the first quarter of 20x1 will increase by 10 percent each month over the previous month's sales. Then Wilcox expects sales to remain constant for several months. Global's projected balance sheet as of December 31, 20x0 is as follows:

Cash	$ 70,000
Accounts receivable	540,000
Marketable securities	30,000
Inventory	308,000
Buildings and equipment (net of accumulated depreciation)	1,252,000
Total assets	$2,200,000
Accounts payable	$ 352,800
Bond interest payable	25,000
Property taxes payable	7,200
Bonds payable (10%; due in 20x6)	600,000
Common stock	1,000,000
Retained earnings	215,000
Total liabilities and stockholders' equity	$2,200,000

Jack Hanson, the assistant controller, is now prep
20x1. In the process, the following information has been

1. Projected sales for December of 20x0 are $800,000. sales. Global's credit experience indicates that 10 pe the month of sale, and the remainder are collected d
2. Global Electronics' cost of goods sold generally run on account, and 40 percent of each month's purchas The remainder is paid during the following month. on hand, the firm attempts to have inventory at the e month's projected cost of goods sold.
3. Hanson has estimated that Global's other monthly e

Sales salaries
Advertising and promotion
Administrative salaries
Depreciation
Interest on bonds
Property taxes

In addition, sales commissions run at the rate of 1 p

4. Global Electronics' president, Davies-Lowry, has in in an automated inventory-handling system to contr warehouse just after the new year begins. These equ from the firm's cash and marketable securities. How needs to keep a minimum cash balance of $50,000. purchases will be financed using short-term credit f such a loan is three months. Hanson believes short- the time of the equipment purchases. If a loan is ne paid off by the end of the first quarter if possible.
5. Global Electronics' board of directors has indicated $100,000 on the last day of each quarter.
6. The interest on any short-term borrowing will be paid Electronics' bonds is paid semiannually on January 3
7. Property taxes are paid semiannually on February 2 period.

Required: Prepare Global Electronics Company's ma pleting the following schedules and statements.

1. Sales budget:

	20x0 December	Janu
Total sales		
Cash sales		
Sales on account		

2. Cash receipts budget:

	Janu
Cash sales	
Cash collections from credit sales made during current month	
Cash collections from credit sales made during preceding month	
Total cash receipts	