

PROBLEM 9-17 Cash Budget with Supporting Schedules [LO 9-2, LO 9-4, LO 9-8]

Janus Products, Inc., is a merchandising company that sells binders, paper, and other school supplies. The company is planning its cash needs for the third quarter. In the past, Janus Products has had to borrow money during the third quarter to support peak sales of back-to-school materials, which occur during August. The following information has been assembled to assist in preparing a cash budget for the quarter:

- a. Budgeted monthly absorption costing income statements for July–October are as follows:

	July	August	September	October
Sales	\$40,000	\$70,000	\$50,000	\$45,000
Cost of goods sold	<u>24,000</u>	<u>42,000</u>	<u>30,000</u>	<u>27,000</u>
Gross margin	<u>16,000</u>	<u>28,000</u>	<u>20,000</u>	<u>18,000</u>
Selling and administrative expenses:				
Selling expense	7,200	11,700	8,500	7,300
Administrative expense*	<u>5,600</u>	<u>7,200</u>	<u>6,100</u>	<u>5,900</u>
Total selling and administrative expenses ...	<u>12,800</u>	<u>18,900</u>	<u>14,600</u>	<u>13,200</u>
Net operating income	<u>\$ 3,200</u>	<u>\$ 9,100</u>	<u>\$ 5,400</u>	<u>\$ 4,800</u>

*Includes \$2,000 depreciation each month.

- b. Sales are 20% for cash and 80% on credit.
- c. Credit sales are collected over a three-month period with 10% collected in the month of sale, 70% in the month following sale, and 20% in the second month following sale. May sales totaled \$30,000, and June sales totaled \$36,000.
- d. Inventory purchases are paid for within 15 days. Therefore, 50% of a month's inventory purchases are paid for in the month of purchase. The remaining 50% is paid in the following month. Accounts payable for inventory purchases at June 30 total \$11,700.
- e. The company maintains its ending inventory levels at 75% of the cost of the merchandise to be sold in the following month. The merchandise inventory at June 30 is \$18,000.
- f. Land costing \$4,500 will be purchased in July.
- g. Dividends of \$1,000 will be declared and paid in September.
- h. The cash balance on June 30 is \$8,000; the company must maintain a cash balance of at least this amount at the end of each month.
- i. The company has an agreement with a local bank that allows it to borrow in increments of \$1,000 at the beginning of each month, up to a total loan balance of \$40,000. The interest rate on these loans is 1% per month, and for simplicity, we will assume that interest is not compounded. The company would, as far as it is able, repay the loan plus accumulated interest at the end of the quarter.

Required:

1. Prepare a schedule of expected cash collections for July, August, and September and for the quarter in total.
2. Prepare the following for merchandise inventory:
 - a. A merchandise purchases budget for July, August, and September.
 - b. A schedule of expected cash disbursements for merchandise purchases for July, August, and September and for the quarter in total.
3. Prepare a cash budget for July, August, and September and for the quarter in total.