PROBLEM 9-26 Completing a Master Budget [LO 9-2, LO 9-4, LO 9-7, LO 9-8, LO 9-9, LO 9-10]

The following data relate to the operations of Picanuy Corporation, a wholesale distributor of consumer goods:

Current assets as of December 31:	
Cash	$6,000
Accounts receivable	$36,000
Inventory	$9,800
Buildings and equipment, net	$110,885
Accounts payable	$32,550
Capital stock	$100,000
Retained earnings	$30,135

a. The gross margin is 30% of sales. (In other words, cost of goods sold is 70% of sales.)

b. Actual and budgeted sales data are as follows:

December (actual)	$60,000
January	$70,000
February	$80,000
March	$85,000
April	$55,000

c. Sales are 40% for cash and 60% on credit. Credit sales are collected in the month following sale. The accounts receivable at December 31 are the result of December credit sales.

d. Each month's ending inventory should equal 20% of the following month's budgeted cost of goods sold.

e. One-quarter of a month's inventory purchases is paid for in the month of purchase; the other three-quarters is paid for in the following month. The accounts payable at December 31 are the result of December purchases of inventory.

f. Monthly expenses are as follows: commissions, $12,000; rent, $1,800; other expenses (excluding depreciation), 8% of sales. Assume that these expenses are paid monthly. Depreciation is $2,400 for the quarter and includes depreciation on new assets acquired during the quarter.

g. Equipment will be acquired for cash: $3,000 in January and $8,000 in February.

h. Management would like to maintain a minimum cash balance of $5,000 at the end of each month. The company has an agreement with a local bank that allows the company to borrow in increments of $1,000 at the beginning of each month, up to a total loan balance of $50,000. 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:

Using the data above:

1. Complete the following schedule:

Schedule of Expected Cash Collections

	January	February	March	Quarter
Cash sales	$28,000			
Credit sales	36,000			
Total collections	$64,000			

2. Complete the following:

Merchandise Purchases Budget

	January	February	March	Quarter
Budgeted cost of goods sold	$49,000*			
Add desired ending inventory	11,200†			
Total needs	60,200			
Less beginning inventory	9,800			
Required purchases	$50,400			

*$70,000 sales × 70% = $49,000.
†$80,000 × 70% × 20% = $11,200.

Schedule of Expected Cash Disbursements—Merchandise Purchases

	January	February	March	Quarter
December purchases	$32,550*			$32,550
January purchases	12,600	$37,800		50,400
February purchases				
March purchases				
Total disbursements	$45,150			

*Beginning balance of the accounts payable.

3. Complete the following schedule:

Schedule of Expected Cash Disbursements—Selling and Administrative Expenses

	January	February	March	Quarter
Commissions	$12,000			
Rent	1,800			
Other expenses	5,600			
Total disbursements	$19,400			

4. Complete the following cash budget:

Cash Budget	January	February	March	Quarter
Cash balance, beginning	$ 6,000			
Add cash collections	64,000			
Total cash available	70,000			
Less cash disbursements:				
For inventory	45,150			
For operating expenses	19,400			
For equipment	3,000			
Total cash disbursements	67,550			
Excess (deficiency) of cash	2,450			
Financing				
Etc.				

5. Prepare an absorption costing income statement, similar to the one shown in Schedule 9 in the chapter, for the quarter ended March 31.
6. Prepare a balance sheet as of March 31.