June- Cash, ending balance
$10,120

Project 2 - Case 4
40 points

Davis Dry Goods distributes silk ties. You are in charge of creating Davis' master budget for the upcoming second quarter, April – June 2015.

10,190

Davis desires a minimum ending cash balance each month of ~~$10,000~~. The ties are sold to retailers for $8 each. Recent and forecasted sales in units are as follows:

January (actual)	22,000	June	67,000
February (actual)	33,000	July	46,000
March (actual)	37,000	August	37,000
April	41,000	September	34,000
May	51,000		

The large buildup in sales before and during June is due to Father's Day. Ending inventories are supposed to equal 90% of the next month's sales in units. The ties cost the company $5 each.

Purchases are paid for as follows: 50% in the month of purchase and the remaining 50% in the following month. All sales are on credit, with no discount, and payable within 15 days. The company has found, however, that only 25% of a month's sales are collected by month-end. An additional 75% is collected in the following month. Bad debts have been negligible.

The company's monthly selling and administrative expenses are given below:

Variable:	
Sales commissions	$ 1 per tie
Fixed:	
Wages and salaries	$ 23,500
Utilities	$ 15,300
Insurance	$ 1,200
Depreciation	$ 1,500
Miscellaneous	$ 3,100

All selling and administrative expenses are paid during the month, in cash, with the exception of depreciation and insurance expired.

Davis has an agreement with a bank that allows it to borrow in increments of $1,000 at the beginning of each month. The interest rate on these loans is 1% per month, and for simplicity, we will assume that interest is not compounded. At the end of the quarter, the company would pay the bank all of the accumulated interest on the loan and as much of the loan as possible (in increments of $1,000), while still retaining at least $10,000 in cash.

Land will be purchased during May for $26,000 cash. Davis declares and pays dividends of $9,000 in the first month of each quarter. The company's balance sheet at March 31 is given below:

Assets

Cash	$ 19,000
Accounts receivable	222,000
Inventory (36,900 ties)	184,500
Prepaid Insurance	14,400
Fixed assets, net	148,500
Total Assets	$ 588,400

Liabilities and Stockholders' Equity

Accounts Payable	$ 101,500
Capital Stock	309,000
Retained Earnings	177,900
Total Liabilities and Stockholders' Equity	$ 588,400

Required:

Prepare a master budget for Davis Dry Goods for the quarter ending June 30, 2015. Include the following detailed budgets:

1. *a.* A sales budget by month and in total.

   b. A schedule of expected cash collections from sales, by month and in total.

   c. A merchandise purchases budget. Show the budget by month and in total.

   d. A schedule of expected cash disbursements for merchandise purchases, by month and in total.

2. A cash budget by month, **but not in total.**

3. A budgeted income statement for the three-month period ending June 30.

4. A budgeted balance sheet as of June 30.

Example to follow for Project 2, part 1.c.:

Purchases Budget

	April	May	June	Quarter
Budgeted Sales (in units)	10,000	12,000	14,000	36,000
Desired end. inv. (in units)	1200	10% 1400	10% 1000	1000
Total Needs (in units)	11,200	13,400	15,000	37,000
Less: Beg Inv. (in units)	(1000)	(1200)	(1400)	(1000)
Req'd purchases (in units)	10,200	12,200	13,600	36,000
Cost per unit	x $4.	x $4	x $4	x $4
Cost of purchases	$40,800.	$48,800.	$54,400	$144,000

DATA:

	April	May	June	July
* Budgeted Sales in units	10,000	12,000	14,000	10,000

* Budgeted Sales in units comes from the 1st line of the Sales budget or from the data given above.
* Desired ending inventory is equal to 10% of the following month's budgeted sales in units.
* April has 1000 units in its beginning merchandise inventory.
* Units cost $4. each.