Exercise 10-10 (20 minutes)

	Quarter (000 omitted)				
	1	*2*	*3*	*4*	*Year*
Cash balance, beginning	$ 6 *	$ 5	$ 5	$ 5	$ 6
Add collections from customers	65	70	96 *	92	323 *
Total cash available	71 *	75	101	97	329
Less disbursements:					
Purchase of inventory	35 *	45 *	48	35 *	163
Selling and administrative expenses	28	30 *	30 *	25	113 *
Equipment purchases	8 *	8 *	10 *	10	36 *
Dividends	2 *	2 *	2 *	2 *	8
Total disbursements	73	85 *	90	72	320
Excess (deficiency) of cash available over disbursements	(2)*	(10)	11 *	25	9
Financing:					
Borrowings	7	15 *	0	0	22
Repayments (including interest)	0	0	(6)	(17)*	(23)
Total financing	7	15	(6)	(17)	(1)
Cash balance, ending	$ 5	$ 5	$ 5	$ 8	$ 8

*Given.

Problem 10-23 (60 minutes)

1. Collections on sales:

	April	*May*	*June*	*Quarter*
Cash sales	$120,000	$180,000	$100,000	$ 400,000
Sales on account:				
February: $200,000 × 80% × 20%.....	32,000			32,000
March: $300,000 × 80% × 70%, 20%.....	168,000	48,000		216,000
April: $600,000 × 80% × 10%, 70%, 20%.....	48,000	336,000	96,000	480,000
May: $900,000 × 80% × 10%, 70%.....		72,000	504,000	576,000
June: $500,000 × 80% × 10%			40,000	40,000
Total cash collections	$368,000	$636,000	$740,000	$1,744,000

2. a. Merchandise purchases budget:

	April	*May*	*June*	*July*
Budgeted cost of goods sold	$420,000	$630,000	$350,000	$280,000
Add desired ending inventory* .	126,000	70,000	56,000	
Total needs.....	546,000	700,000	406,000	
Less beginning inventory	84,000	126,000	70,000	
Required inventory purchases ..	$462,000	$574,000	$336,000	

*20% of the next month's budgeted cost of goods sold.

b. Schedule of expected cash disbursements for merchandise purchases:

	April	*May*	*June*	*Quarter*
Accounts payable, March 31	$126,000			$ 126,000
April purchases.....	231,000	$231,000		462,000
May purchases.....		287,000	$287,000	574,000
June purchases.....			168,000	168,000
Total cash disbursements.....	$357,000	$518,000	$455,000	$1,330,000

Problem 10-23 (continued)

3.

Garden Sales, Inc.
Cash Budget
For the Quarter Ended June 30

	April	*May*	*June*	*Quarter*
Cash balance, beginning	$ 52,000	$ 40,000	$ 40,000	$ 52,000
Add collections from sales	368,000	636,000	740,000	1,744,000
Total cash available	420,000	676,000	780,000	1,796,000
Less disbursements:				
Purchases for inventory	357,000	518,000	455,000	1,330,000
Selling expenses	79,000	120,000	62,000	261,000
Administrative expenses	25,000	32,000	21,000	78,000
Land purchases	—	16,000	—	16,000
Dividends paid	49,000	—	—	49,000
Total disbursements	510,000	686,000	538,000	1,734,000
Excess (deficiency) of cash	(90,000)	(10,000)	242,000	62,000
Financing:				
Borrowings	130,000	50,000	0	180,000
Repayments	0	0	(180,000)	(180,000)
Interest ($130,000 × 1% × 3 + $50,000 × 1% × 2)	0	0	(4,900)	(4,900)
Total financing	130,000	50,000	(184,900)	(4,900)
Cash balance, ending	$ 40,000	$ 40,000	$ 57,100	$ 57,100

Problem 10-25 (120 minutes)

1. Schedule of expected cash collections:

	April		*May*	*June*	*Quarter*
Cash sales	$36,000	*	$43,200	$54,000	$133,200
Credit sales[1]	20,000	*	24,000	28,800	72,800
Total collections	$56,000	*	$67,200	$82,800	$206,000

[1]40% of the preceding month's sales.
*Given.

2. Merchandise purchases budget:

	April		*May*	*June*	*Quarter*
Budgeted cost of goods sold[1]	$45,000	*	$ 54,000	* $67,500	$166,500
Add desired ending inventory[2]	43,200	*	54,000	28,800	28,800
Total needs	88,200	*	108,000	96,300	195,300
Less beginning inventory	36,000	*	43,200	54,000	36,000
Required purchases	$52,200	*	$ 64,800	$42,300	$159,300

[1]For April sales: $60,000 sales × 75% cost ratio = $45,000.

[2]At April 30: $54,000 × 80% = $43,200.
At June 30: July sales $48,000 × 75% cost ratio × 80% = $28,800.

*Given.

Schedule of expected cash disbursements—merchandise purchases

	April		*May*	*June*	*Quarter*	
March purchases	$21,750	*			$ 21,750	*
April purchases	26,100	*	$26,100	*	52,200	*
May purchases			32,400	$32,400	64,800	
June purchases				21,150	21,150	
Total disbursements	$47,850	*	$58,500	$53,550	$159,900	

*Given.

Problem 10-25 (continued)

3. Schedule of expected cash disbursements—selling and administrative expenses

	April		*May*	*June*	*Quarter*
Commissions	$ 7,200	*	$ 8,640	$10,800	$26,640
Rent	2,500	*	2,500	2,500	7,500
Other expenses	3,600	*	4,320	5,400	13,320
Total disbursements	$13,300	*	$15,460	$18,700	$47,460

*Given.

4. Cash budget:

	April		*May*	*June*	*Quarter*
Cash balance, beginning	$ 8,000	*	$ 4,350	$ 4,590	$ 8,000
Add cash collections	56,000	*	67,200	82,800	206,000
Total cash available	64,000	*	71,550	87,390	214,000
Less disbursements:					
For inventory	47,850	*	58,500	53,550	159,900
For expenses	13,300	*	15,460	18,700	47,460
For equipment	1,500	*	0	0	1,500
Total disbursements	62,650	*	73,960	72,250	208,860
Excess (deficiency) of cash	1,350	*	(2,410)	15,140	5,140
Financing:					
Borrowings	3,000		7,000	0	10,000
Repayments	0		0	(10,000)	(10,000)
Interest ($3,000 × 1% × 3 + $7,000 × 1% × 2)	0		0	(230)	(230)
Total financing	3,000		7,000	(10,230)	(230)
Cash balance, ending	$ 4,350		$ 4,590	$ 4,910	$ 4,910

* Given.

Problem 10-25 (continued)

5.

Shilow Company
Income Statement
For the Quarter Ended June 30

Sales ($60,000 + $72,000 + $90,000)		$222,000
Cost of goods sold:		
Beginning inventory (Given)	$ 36,000	
Add purchases (Part 2)	159,300	
Goods available for sale	195,300	
Ending inventory (Part 2)	28,800	166,500 *
Gross margin		55,500
Selling and administrative expenses:		
Commissions (Part 3)	26,640	
Rent (Part 3)	7,500	
Depreciation ($900 × 3)	2,700	
Other expenses (Part 3)	13,320	50,160
Net operating income		5,340
Interest expense (Part 4)		230
Net income		$ 5,110

*A simpler computation would be: $222,000 × 75% = $166,500.

Problem 10-25 (continued)

6.

Shilow Company
Balance Sheet
June 30

Assets

Current assets:		
Cash (Part 4)		$ 4,910
Accounts receivable ($90,000 × 40%)		36,000
Inventory (Part 2)		28,800
Total current assets		69,710
Building and equipment—net ($120,000 + $1,500 – $2,700)		118,800
Total assets		$188,510

Liabilities and Equity

Accounts payable (Part 2: $42,300 × 50%)		$ 21,150
Stockholders' equity:		
Capital stock (Given)	$150,000	
Retained earnings*	17,360	167,360
Total liabilities and equity		$188,510

* Retained earnings, beginning	$12,250
Add net income	5,110
Retained earnings, ending	$17,360