

Quiz 2 Managerial Accounting

ADM2341 C

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STUDENT NAME:

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STUDENT NUMBER:

Grade /25

Instructions: Answer all questions in this booklet. Please limit your answer to the space provided. The use of standard abbreviations (O/H for Overhead and DM for direct material is quite acceptable.. Please do not ask the invigilators questions. Make reasonable assumptions where necessary. Language dictionaries are allowed. **Show calculations**

Statement of Academic Integrity

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Statement to be signed by the student:

I have read the text on academic integrity and I pledge not to have committed or attempted to commit academic fraud in this examination.

Signed: _____

Note: an examination without this signed statement will not be graded and will receive an exam grade of zero.

QUESTION (25 pts)

The following data relate to the operations of Picanny 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. Gross profit is 30% of sales. (In other words, cost of goods sold is 70% of sales.)
- b. Actual and budgeted sales data:

	December (actual)	
January		\$60,000
February		70,000
March		80,000
April		85,000
		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. At the end of each month, inventory is to be on hand equal to 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: salaries and wages, \$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. The company must maintain a minimum cash balance of \$5,000. An open line of credit is available at a local bank. All borrowing is done at the beginning of a month, and all repayments are made at the end of a month; borrowing must be in multiples of \$1,000. The annual interest rate is 12%. Interest is paid only at the time of repayment of principal; figure interest on whole month (1/12, 2/12, and so forth).

Required:

Using the data provided in this problem:

- 1. Complete the following schedule:

Schedule of Expected Cash Collections

	January	February	March	Quarter
Cash sales	\$28,000	32,000 ¹¹²	34,000 ¹¹²	94,000 ¹¹²
Credit sales	36,000	42,000 ¹¹²	48,000 ¹¹²	126,000 ¹¹²
Total collections	<u>\$64,000</u>	<u>74,000</u>	<u>82,000</u>	<u>220,000</u>

2. Complete the following:

Inventory Purchases Budget

	January	February	March	Quarter
Budgeted cost of goods sold	\$49,000	\$6000 ¹¹²	\$9500 ¹¹²	164500 ¹¹²
Add desired ending inventory	11,200 [†]	11900 ¹¹²	7700 ¹¹²	7700 ¹¹²
Total needs	60,200	67900	67200	172200
Less beginning inventory	9,800	11200 ¹¹²	11900 ¹¹²	172200 9800
Required purchases	\$50,400	\$6700	\$5300	162400

*\$70,000 sales X 70% = \$49,000.

[†]\$80,000 X 70% X 20% = \$11,200

Schedule of Expected Cash Disbursements - Purchases

	January	February	March	Quarter
December purchases	\$32,550*			\$32,550 ¹¹²
January purchases	12,600	\$37,800 ¹¹²		50,400 ¹¹²
February purchases		14175 ¹¹²	42525 ¹¹²	56700 ¹¹²
March purchases			13825 ¹¹²	13825 ¹¹²
Total disbursements	\$45,150	\$51975	\$56350	153475

*Beginning balance of accounts payable

3. Complete the following:

Schedule of Expected Cash Disbursements – Operating Expenses

	January	February	March	Quarter
Salaries and wages	\$12,000	12000 ¹¹²	12000 ¹¹²	36000 ¹¹²
Rent	1,800	1800 ¹¹²	1800 ¹¹²	5400 ¹¹²
Other expenses	5,600	6400 ¹¹²	6800 ¹¹²	18800 ¹¹²
Total disbursements	\$19,400	20200	20600	60200 ¹¹²

4. Complete the following cash budget:

Cash Budget

	January	February	March	Quarter
Cash balance, beginning	\$6,000	5450 ¹¹²	5275 ¹¹²	6000 ¹¹²
Add cash collections	64,000	74000 ¹¹²	82000 ¹¹²	220000
Total cash available	70,000	79450	87275	226000
Less cash disbursements:				
For inventory	45,150	51975 ¹¹²	56350 ¹¹²	153475
For operating expenses	19,400	20200 ¹¹²	20600 ¹¹²	60200
For equipment	3,000	8000 ¹¹²	8000 ¹¹²	11000
Total cash disbursements	67,550	80175	76950	224675
Excess (deficiency) of cash	2,450	(725) ¹¹²	10325 ¹¹²	1325
Financing	3000	6000 ¹¹²	45000 ¹¹²	40000
Etc.	5450	5275	<2100> ¹¹²	<2100>
	=	=	5115	5115

① Repayment of line of credit

② Int expense 3000 x 12% x 3/12 = 90
 6000 x 12% x 2/12 = 120
210