

MOS 3370 Budget Assignment – Intersession 2018

QUESTION 1

The following information has been assembled to assist in preparing a master budget for Sunshine Company for the first quarter of 2018.

a. At December 31, the company's general ledger account balances were:

Cash	\$ 48,000
Accounts Receivable	224,000
Inventory	60,000
Buildings and Equipment	370,000
Accounts Payable	93,000
Common Shares	500,000
Retained Earnings	109,000

b. Actual sales for December and budgeted sales for the next four months are as follows:

<u>December</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>
\$280,000	\$400,000	\$600,000	\$300,000	\$200,000

c. 20% of sales are for cash. All payments for credit sales are collected in the month following the sale.

d. The company's gross margin is 40% of sales.

e. Monthly expenses are budgeted as follows: salaries and wages, \$27,000 per month; advertising, \$70,000 per month; shipping, 5% of sales; other expenses, 3% of sales. Depreciation is calculated for the quarter in the last month of each quarter. For the first quarter of 2018, depreciation will be \$42,000. This includes depreciation on any new equipment purchased during the quarter.

f. Each month's ending inventory should equal 25% of the following month's cost of goods sold.

g. One-half of each month's inventory purchases is paid in the month of purchase; the other half is paid in the following month.

h. During February, the company will purchase a new printer for \$1,700 cash. During March, other equipment will be purchased for cash at a cost of \$84,500.

i. During January the company will declare and pay \$45,000 in cash dividends.

j. Management would like to maintain a minimum cash balance of \$30,000. The company has an agreement with a local bank that allows it to borrow up to a total loan balance of \$100,000. Interest on amounts borrowed is 0.5% per month. Interest payments must be made at the end of each month. Assume all borrowing occurs at the beginning of a month. The company will, as far as it is able, repay outstanding loans at the end of each month.

Required:

Complete a full set of budgets, including a schedule of expected cash collections, a merchandise purchase budget, a schedule of expected cash disbursements for merchandise purchases, a schedule of cash disbursements for operating expenses, and a cash budget.

QUESTION 2

Luxury Car Spa owns and operates a large automatic car wash facility. The number of cars cleaned per month varies widely, and management would like to better understand costs by preparing a flexible budget. Please fill in the missing data to prepare a flexible budget for the company.

LUXURY CAR SPA - FLEXIBLE BUDGET					LUXURY CAR SPA - MAY ACTUALS	
	Per Car	Monthly Activity Level (# of Cars)			Actual Information for May	# of Cars
		7,000	8,000	9,000		
Sales	?	?	\$80,000	?	Sales	\$83,000
Variable Expenses					Variable Expenses	
Cleaning Supplies	?	?	6,000	?	Cleaning Supplies	6,350
Utilities	?	?	4,800	?	Utilities	4,865
Maintenance	?	?	1,200	?	Maintenance	1,600
Total Variable Expenses	?	?	?	?	Total Variable Expenses	12,815
Contribution Margin					Contribution Margin	70,185
Fixed Expenses					Fixed Expenses	
Operator Wages		?	10,000	?	Operator Wages	10,050
Depreciation		?	20,000	?	Depreciation	20,200
Rent		?	8,000	?	Rent	8,000
Insurance		?	1,000	?	Insurance	1,100
Selling and Admin		?	4,000	?	Selling and Admin	3,800
Total Fixed Expenses		?	43,000	?	Total Fixed Expenses	43,150
Operating Income					Operating Income	27,035

Required:

- 1) Complete the Flexible Budget above. Use Exhibit 9-3 as a guide.
- 2) Assume that for May the company had expected to clean 8,000 cars. The actual number of cars cleaned was 8,300. Actual cost information for August is given above. Use this information and your flexible budget to prepare a Flexible Budget Performance Report for May. Use the format in Exhibit 9-4.
- 3) What is your opinion of how the company performed for May? What has the company done well, and what does it need to improve?

ASSIGNMENT INFORMATION:

This assignment is due at the beginning of class on Tuesday, May 29. A hard copy must be given to your professor. It may be typed or hand written. If hand written, it must be highly legible. Please provide your solution in a professional manner, similar to the exhibits shown in Chapter 9.

If you are completing this assignment with another classmate, only one copy needs to be submitted. The names and student # of both people must be included on the assignment. You must also include a statement saying what each person contributed to completing this assignment.