

EXERCISES: SET B

LO 2 Components of a Master Budget

E1B. Assigning the numbers 1 through 7, identify the order in which the following budgets are prepared.

- production budget
- direct labor budget
- direct materials purchases budget
- sales budget
- budgeted balance sheet
- cash budget
- budgeted income statement

LO 2 Sales Budget

E2B. Steen Manufacturing Company's quarterly and annual sales for this year follow. Prepare a sales budget for next year for the company based on the estimated percentage increases shown by product class. Show both quarterly and annual totals for each product class.

Steen Manufacturing Company
Actual Sales Revenue
For the Year Ended December 31

Product Class	January– March	April– June	July– September	October– December	Annual Totals	Estimated Percent Increases by Product Class
Marine products	\$ 44,500	\$ 45,500	\$ 48,200	\$ 47,900	\$ 186,100	20%
Mountain products	36,900	32,600	34,100	37,200	140,800	5%
River products	29,800	29,700	29,100	27,500	116,100	30%
Hiking products	38,800	37,600	36,900	39,700	153,000	15%
Running products	47,700	48,200	49,400	49,900	195,200	25%
Biking products	65,400	65,900	66,600	67,300	265,200	20%
Totals	<u>\$263,100</u>	<u>\$259,500</u>	<u>\$264,300</u>	<u>\$269,500</u>	<u>\$1,056,400</u>	

LO 2 Production Budget

E3B. Santa Fe Corporation produces and sells a single product. Expected sales for September are 12,000 units; for October, 15,000 units; for November, 9,000 units; for December, 10,000 units; and for January, 14,000 units. The company's desired level of ending finished goods inventory at the end of a month is 10 percent of the following month's expected sales in units. At the end of August, 1,200 units were on hand. How many units need to be produced in the fourth quarter?

LO 2 Direct Materials Purchases Budget

E4B. U-Z Door Company manufactures garage door units. The units include hinges, door panels, and other hardware. The controller has provided the information that follows.

(Continued)

Part	Units Needed	Cost
Hinges	4 sets per door	\$11.00 per set
Door panels	4 panels per door	\$27.00 per panel
Other hardware	1 lock per door	\$31.00 per lock
	1 handle per door	\$22.50 per handle
	2 roller tracks per door	\$16.00 per set of 2 roller tracks
	8 rollers per door	\$4.00 per roller

Prepare a direct materials purchases budget for the first quarter of the year based on budgeted production of 16,000 garage door units. Assume no beginning or ending quantities of direct materials inventory.

LO 2, 3 Purchases Budget

E5B. Hard Corporation projects sales of \$230,000 in May, \$250,000 in June, \$260,000 in July, and \$240,000 in August. Since the dollar value of the company's cost of goods sold is generally 65 percent of total sales, cost of goods sold is \$149,500 in May, \$162,500 in June, \$169,000 in July, and \$156,000 in August. The dollar value of its desired ending inventory is 25 percent of the following month's cost of goods sold.

Compute the total purchases in dollars budgeted for June and the total purchases in dollars budgeted for July.

LO 2 Direct Labor Budget

E6B. Paige Metals Company has two departments—Cutting and Grinding—and manufactures three products. Budgeted unit production for the coming year is 21,000 of Product T, 36,000 of Product M, and 30,000 of Product B. The company is currently analyzing direct labor hour requirements for the coming year. Data for each department follow.

	Cutting	Grinding
Estimated hours per unit:		
Product T	1.1	0.5
Product M	0.6	2.9
Product B	3.2	1.0
Hourly labor rate	\$9	\$7

Prepare a direct labor budget for the coming year that shows the budgeted direct labor costs for each department and for the company as a whole.

LO 2 Overhead Budget

E7B. Carole Dahl is chief financial officer of the Phoenix Division of Dahl Corporation, a multinational company with three operating divisions. As part of the budgeting process, Dahl's staff is developing the overhead budget for next year. The division estimates that it will manufacture 50,000 units during the year. The budgeted cost information follows.

	Variable Rate per Unit	Fixed Costs
Indirect materials	\$1.00	
Indirect labor	4.00	
Supplies	0.40	
Repairs and maintenance	3.00	\$ 40,000
Electricity	0.10	20,000
Factory supervision		180,000
Insurance		25,000
Property taxes		35,000
Depreciation—machinery		82,000
Depreciation—building		72,000

Prepare the division's overhead budget for next year.

LO 3

Cash Collections

CASH FLOW

E8B. Dacahr Bros., Inc., is an automobile maintenance and repair company with outlets throughout the western United States. Henley Turlington, the company controller, is starting to assemble the cash budget for the fourth quarter. Projected sales for the quarter follow.

	On Account	Cash
October	\$452,000	\$196,800
November	590,000	214,000
December	720,000	218,400

Cash collection records pertaining to sales on account indicate the following collection pattern:

Month of sale	40%
First month following sale	30%
Second month following sale	28%
Uncollectible	2%

Sales on account during August were \$346,000. During September, sales on account were \$395,000.

Compute the amount of cash to be collected from customers during each month of the fourth quarter.

LO 3

Cash Collections

CASH FLOW

E9B. XYZ Company collects payment on 50 percent of credit sales in the month of sale, 40 percent in the month following the sale, and 5 percent in the second month following the sale. Its sales budget follows.

Month	Cash Sales	Credit Sales
May	\$20,000	\$ 40,000
June	40,000	60,000
July	60,000	80,000
August	80,000	100,000

Compute XYZ's total cash collections in July and its total cash collections in August.

LO 3

Cash Budget

CASH FLOW

E10B. SABA Enterprises needs a cash budget for the month of June. The following information is available:

- The cash balance on June 1 is \$4,000.
- Sales for May and June are \$50,000 and \$40,000, respectively. Cash collections on sales are 40 percent in the month of sale and 50 percent in the month after the sale; 10 percent of sales are uncollectible.
- General expenses budgeted for June are \$20,000 (depreciation represents \$1,000 of this amount).
- Inventory purchases will total \$40,000 in May and \$30,000 in June. The company pays for half of its inventory purchases in the month of purchase and for the other half the month after purchase.
- The company will pay \$5,000 in cash for office furniture in June. Sales commissions for June are budgeted at \$6,000.
- The company maintains a minimum ending cash balance of \$4,000 and can borrow from the bank in multiples of \$100. All loans are repaid after 60 days.

Prepare a cash budget for SABA for the month of June.

LO 4

Cash Budget

CASH FLOW

E11B. Tex Kinkaid's dream was to develop the biggest produce operation with the widest selection of fresh fruits and vegetables in northern Texas. Within three years of opening Minigarden Produce, Inc., Kinkaid accomplished his objective. Kinkaid has asked you to prepare monthly cash budgets for Minigarden Produce for the quarter ended September 30.

Credit sales to retailers in the area constitute 80 percent of Minigarden Produce's business; cash sales to customers at the company's retail outlet make up the other 20 percent. Collection records indicate that Minigarden Produce collects payment on 50 percent of all credit sales during the month of sale, 30 percent in the month after the sale, and 20 percent in the second month after the sale.

The company's total sales in May were \$66,000; in June, they were \$67,500. Anticipated sales in July are \$69,500; in August, \$76,250; and in September, \$84,250. The company's produce purchases are expected to total \$43,700 in July, \$48,925 in August, and \$55,725 in September. The company pays for all purchases in cash.

Projected monthly costs for the quarter include \$1,040 for heat, light, and power; \$375 for bank fees; \$1,925 for rent; \$1,120 for supplies; \$1,705 for depreciation of equipment; \$1,285 for equipment repairs; and \$475 for miscellaneous expenses. Other projected costs for the quarter are salaries and wages of \$18,370 in July, \$19,200 in August, and \$20,300 in September.

The company's cash balance at June 30 was \$2,745. It has a policy of maintaining a minimum monthly cash balance of \$1,500 and can borrow from the bank to maintain this balance.

1. Prepare a monthly cash budget for Minigarden Produce, Inc., for the quarter ended September 30.
2. **ACCOUNTING CONNECTION** ► Should Minigarden Produce anticipate taking out a loan during the quarter? If so, how much should it borrow, and when?

LO 3

Budgeted Income Statement

E12B. Delft House, Inc., a multinational company based in Amsterdam, organizes and coordinates art shows and auctions throughout the world. Its budgeted and actual costs for last year follow.

	Budgeted Cost	Actual Cost
Salaries expense, staging	€ 480,000	€ 512,800
Salaries expense, executive	380,000	447,200
Travel costs	640,000	652,020
Auctioneer services	540,000	449,820
Space rental costs	251,000	246,580
Printing costs	192,000	182,500
Advertising expense	169,000	183,280
Insurance—merchandise	84,800	77,300
Insurance—liability	64,000	67,100
Home office costs	209,200	219,880
Shipping costs	105,000	112,560
Miscellaneous	25,000	25,828
Total operating expenses	€3,140,000	€3,176,868
Net receipts	6,200,000	6,369,200

Because the company sells only services, there is no cost of goods sold (net receipts equal gross margin). Delft House has budgeted the following fixed costs for the coming year: executive salaries, €440,000; advertising expense, €190,000; merchandise insurance, €80,000; and liability insurance, €68,000.

Additional information:

- a. Net receipts are estimated at €6,400,000.
 - b. Salaries expense for staging will increase 20 percent over the actual figures for the last year.
 - c. Travel costs are expected to be 11 percent of net receipts.
 - d. Auctioneer services will be billed at 9.5 percent of net receipts.
 - e. Space rental costs will be 20 percent higher than the amount budgeted in the last year.
 - f. Printing costs are expected to be €190,000.
 - g. Home office costs are budgeted for €230,000.
 - h. Shipping costs are expected to be 20 percent higher than the amount budgeted in the last year.
 - i. Miscellaneous expenses for the coming year will be budgeted at €28,000.
1. Using a 40 percent income tax rate, prepare the company's budgeted income statement for the coming year.
 2. **ACCOUNTING CONNECTION** ► Should the budget committee be worried about the trend in the company's operations? Explain your answer.

LO 5 Characteristics of Budgets

E13B. BUSINESS APPLICATION ► You recently attended a workshop on budgeting and overheard the following comments as you walked to the refreshment table:

- a. "All budgets are complicated. You have to be an expert to prepare one."
- b. "Budgets don't need to be highly accurate. No one in our company stays within a budget anyway."

Do you agree or disagree with each comment? Explain your answers.

LO 5 Budgeting and Goals

E14B. BUSINESS APPLICATION ► Effective planning of long- and short-term goals has contributed to the success of TMP Calendars, Inc. Described below are the actions that the company's management team took during a recent planning meeting. Indicate whether the goals related to those actions are short-term or long-term.

1. In forecasting the next 10-year period, the management team considered economic and industry forecasts, employee-management relationships, and the structure and role of management.
2. Based on the 10-year forecast, the team made decisions about next year's sales and profit targets.

LO 5 Budgeting and Goals

E15B. BUSINESS APPLICATION ► Assume that you work in the accounting department of a small wholesale warehousing company. Inspired by a recent seminar on budgeting, the company's president wants to develop a budgeting system and has asked you to direct it. Identify the points concerning the initial steps in the budgeting process that you should communicate to the president. Concentrate on principles related to long-term goals and short-term goals.