

To start, make the following assumptions:

- 1) We are opening up a brand new store.
- 2) We sell only a one type of specialty lamp.
- 3) We sell the lamps for \$50 each and get paid 50% in the month of the sale, 40% in the month following the sale and 10% in the second month following the sale.
- 4) The lamps cost us \$30 each and we pay 50% in the month of the purchase and 50% in the month following the purchase.
- 5) We want each month's ending inventory to be 60% of the following month's sales quantity.
- 6) Our store rent which includes all utilities is \$600 per month payable at the start of each month.
- 7) Our sales clerk costs us \$3,000 per month.
- 8) We will pay \$400 per month on advertising at the first of each month.
- 9) We will spend \$100 per month on store supplies.
- 10) We will spend \$600 per month for bookkeeping services.
- 11) We will spend \$800 per month for all other general and administrative expenses.
- 12) We will spend \$3,600 in the first month to purchase a computer system. We will use the computer for three years at which time it will be scrapped. We will use Straight Line Amortization and consider it a Selling Expense.

Required

Create a Master Budget including a Budgeted Statement of Earnings and Budgeted Statement of Change in Owner Equity for the three months ended March 31, 2000 and a Budgeted Statement of Financial Position as at March 31, 2000 under the assumption that sales will be as follows:

SALES	January	February	March	April
Number of Units	300	400	500	600

Also assume that any shortages in cash will be covered by owner investments rounded up to the nearest \$1,000.

WORKING PAPERS

SALES	January	February	March	April
Number of Units				
Price per Unit				
Sales per Month				

PURCHASES	January	February	March
Next Month's Sales			
% for Ending Inventory			
Ending Inventory			
Sales for Current Month			
Quantity to be Available			
Less Beginning Inventory			
Quantity to Purchase			
Cost per Unit			
Purchases per Month			

SELLING EXPENSES	January	February	March
Store Rent			
Sales Salary			
Advertising			
Store Supplies			
Amortization			
Total Selling Expenses			

G & A EXPENSES	January	February	March
Bookkeeping			
Other G & A Expenses			
Total General & Admin.			

CAPITAL EXPENDITURES	January	February	March
Computer			
Total Expenditures			

**ABC Company
Cash Budget
For the 3 Months ended March 31, 2000**

CASH BUDGET	January	February	March
Cash at Beginning of Month			
Cash Receipts from Customers			
Jan Sales			
Feb Sales			
Mar Sales			
Cash before Disbursements to Suppliers			
Cash Disbursements to Suppliers			
Jan Purch.			
Feb Purch.			
Mar Purch.			
Cash before other disbursements			
Other Disbursements: Store Rent			
Sales Salary			
Advertising			
Store Supplies			
Bookkeeping			
Other G & A Expenses			
Purchase of Computer			
Total of Other Disbursements			
Cash before Other Adjustments			
Investment by Owner			
Cash at End of Month			

ABC Company
Budgeted Statement of Earnings
For the 3 Months ended March 31, 2000

Sales		_____
Cost of Goods Sold:		
Beginning Inventory		_____
Plus Purchases		_____
Goods Available for Sale		_____
Less Ending Inventory		_____
Cost of Goods Sold		_____
Gross Profit		_____
Selling Expenses:		
Store Rent		_____
Sales Salary		_____
Advertising		_____
Store Supplies		_____
Amortization of Computer		_____
Total Selling Expenses		_____
General & Administrative Expenses:		
Bookkeeping		_____
Other G & A Expenses		_____
Total General & Admin Expenses		_____
Total Operating Expenses		_____
Income from Operations		_____

ABC Company
Budgeted Statement of Change in Owner Equity
For the 3 Months ended March 31, 2000

Owner Equity January 1		_____
Plus: Net Income		_____
Owner Investment		_____

Less: Owner Withdrawal		_____
Owner Equity March 31		_____

ABC Company
Budgeted Statement of Financial Position
As At March 31, 2000

Current Assets:	
Cash	_____
Accounts Receivable	_____
Inventory	_____
Total Current Assets	_____
Capital Assets:	
Computer	_____
Less Acc.Amort.	_____
Total Capital Assets	_____
Total Assets	_____
Liabilities:	
Accounts Payable	_____
Owner Equity	_____
Total Liabilities & Owner Equity	_____

ANSWER

SALES	January	February	March	April
Number of Units	300	400	500	600
Price per Unit	50	50	50	50
Sales per Month	15,000	20,000	25,000	30,000

PURCHASES	January	February	March
Next Month's Sales	400	500	600
% for Ending Inventory	60%	60%	60%
Ending Inventory	240	300	360
Sales for Current Month	300	400	500
Quantity to be Available	540	700	860
Less Beginning Inventory	0	240	300
Quantity to Purchase	540	460	560
Cost per Unit	30	30	30
Purchases per Month	16,200	13,800	16,800

SELLING EXPENSES	January	February	March
Store Rent	600	600	600
Sales Salary	3,000	3,000	3,000
Advertising	400	400	400
Store Supplies	100	100	100
Amortization	100	100	100
Total Selling Expenses	4,200	4,200	4,200

G & A EXPENSES	January	February	March
Bookkeeping	600	600	600
Other G & A Expenses	800	800	800
Total General & Admin.	1,400	1,400	1,400

CAPITAL EXPENDITURES	January	February	March
Computer	3,600		
Total Expenditures	3,600		

ABC Company
Cash Budget
For the 3 Months ended March 31, 2000

CASH BUDGET		January	February	March
Cash at Beginning of Month		0	300	800
Cash Receipts from Customers	Jan Sales	7,500	6,000	1,500
	Feb Sales	0	10,000	8,000
	Mar Sales	0	0	12,500
Cash before Disbursements to Suppliers		7,500	16,300	22,800
Cash Disbursements to Suppliers	Jan Purch.	8,100	8,100	
	Feb Purch.	0	6,900	6,900
	Mar Purch.	0	0	8,400
Cash before other disbursements		(600)	1,300	7,500
Other Disbursements: Store Rent		600	600	600
	Sales Salary	3,000	3,000	3,000
	Advertising	400	400	400
	Store Supplies	100	100	100
	Bookkeeping	600	600	600
	Other G & A Expenses	800	800	800
	Purchase of Computer	3,600		
Total of Other Disbursements		9,100	5,500	5,500
Cash before Other Adjustments		(9,700)	(4,200)	2,000
Investment by Owner		10,000	5,000	0
Cash at End of Month		300	800	2,000

ABC Company
Budgeted Statement of Earnings
For the 3 Months ended March 31, 2000

Sales	<u>60,000</u>
Cost of Goods Sold:	
Beginning Inventory	<u>0</u>
Plus Purchases	<u>46,800</u>
Goods Available for Sale	<u>46,800</u>
Less Ending Inventory	<u>10,800</u>
Cost of Goods Sold	<u>36,000</u>
Gross Profit	<u>24,000</u>
Selling Expenses:	
Store Rent	<u>1,800</u>
Sales Salary	<u>9,000</u>
Advertising	<u>1,200</u>
Store Supplies	<u>300</u>
Amortization of Computer	<u>300</u>
Total Selling Expenses	<u>12,600</u>
General & Administrative Expenses:	
Bookkeeping	<u>1,800</u>
Other G & A Expenses	<u>2,400</u>
Total General & Admin Expenses	<u>4,200</u>
Total Operating Expenses	<u>16,800</u>
Income from Operations	<u>7,200</u>

ABC Company
Budgeted Statement of Change in Owner Equity
For the 3 Months ended March 31, 2000

Owner Equity January 1	<u>0</u>
Plus: Net Income	<u>7,200</u>
Owner Investment	<u>15,000</u>
	<u>22,200</u>
Less: Owner Withdrawal	<u>0</u>
Owner Equity March 31	<u>22,200</u>

Less Ending Inventory of \$10,800 equals 360 Units March 31 time \$30 cost per unit

ABC Company
Budgeted Statement of Financial Position
As At March 31, 2000

Current Assets:		
Cash	2,000	
Accounts Receivable	14,500	
Inventory	10,800	
Total Current Assets		27,300
Capital Assets:		
Computer	3,600	
Less Acc.Amort.	300	
Total Capital Assets		3,300
Total Assets		30,600
Liabilities:		
Accounts Payable		8,400
Owner Equity		22,200
Total Liabilities & Owner Equity		30,600

* Accounts Receivable of \$14,500 is calculated as follows:

January Sales uncollected at March 31 (all has been collected)	0
February Sales uncollected at March 31 (10% of 20,000)	2,000
March Sales uncollected at March 31 (50% of 25,000)	12,500
Accounts Receivable at March 31	14,500

Accounts Payable of \$8,400 is calculated as follows:

January Purchases unpaid at March 31 (all has been collected)	0
February Purchases unpaid at March 31 (all has been collected)	0
March Purchases unpaid at March 31 (50% of 16,800)	8,400
Accounts Payable at March 31	8,400