Chester and wayne essay

Wayne Is a regional food distribution company. Mr..

Chester. CEO, has asked for assistance with preparing cash-flow information for the last three months of this year. The selected accounts from an interim balance sheet dated September 30, have the following balances: Cash $142, accounts payable $354, 155 Marketable securities $200, theater payable $53, 200 Accounts receivable Inventories $1 50, 388 Mr..

Wayne, COIF, provided the following Information based on experience and management policy. All sales are credit sales and are billed the last day of the month of sale.

Customers paying within 10 days of the billing date may take a 2 percent cash discount. Forty percent of the sales are paid within the discount period In the month following billing. An additional 25 percent pays In the same month but does not receive the cash discount.

Thirty percent is collected in the second month after billing; the remainder is unconvertible. Additional cash of $24, 000 is expected in October from renting unused warehouse space. Sixty percent of all purchases, selling ND administrative expenses, and advertising expenses are paid In the month incurred. The remainder is paid in the following month.

Ending inventory is set at 25 percent of the next month’s budgeted cost of goods sold. The company’s gross profit averages 30 percent of sales for the month. Selling and administrative expenses follow the formula of 5 percent of the current month’s sales plus $75, 000, which Includes depreciation of $5, 000. Advertising expenses are budgeted at 3 percent of sales. Actual and budgeted sales information is as follows: Actual: August September Budgeted: 750, October $826, 800 $787, November $868, 200 December January $911 , 600 $930, 000 The company will acquire equipment costing $250, 000 cash in November.

Dividends of $45, 000 will be paid in December. The company would like to maintain a minimum cash balance at the end of each month of $120, 000. Any excess amounts go first to repayment of short-term borrowings and then to investment in marketable securities. When cash is needed to reach the minimum balance, the company policy is to sell marketable securities before borrowing. Cash Budget for each Month of the Fourth Quarter 1 OFF

Increasing inventory levels will increase sales, however, will also increase borrowing as additional funds will be needed.

Mr.. Wayne wants to discontinue the cash account for prompt payment. He thinks that maybe collections of an additional 20 percent of sales will be delayed from the month of billing to the next month. Mr..

Chester says “ That’s ridiculous! We should increase the discount to 3 percent. Twenty percent more would be collected in the current month to get the higher discount. ” Any delay in collections of sales will increase the impact on borrowing from the bank as the initial collections would not be there to cover immediate costs.

The discount should no longer be continued, however, the ultimate decision should take into inconsideration that if offering a higher discount reduces borrowing, the company will also have a cost for early payments.

If in the end, the cost of the early payments is lower than the borrowing costs, the early payment options should be continued and if in the end, it is not beneficial to the budget and cost allocation allowed, the discount options should be discouraged. References Schneider, Arnold. (2012) Managerial Accounting: Manufacturing and Service Applications. San Diego, CA: Bridgeport Education. Nil increase by $42, 538 in November and $28, 122 in December.

Mr.. Chester thinks