Case study: master budgeting with supporting schedule

Business

Budget with Supporting Schedules Cravat Sales Company, a nationwide distributor of a designer's silk ties with an exclusive franchise on the distribution of the ties, and sales have grown rapidly over the last few years. Your have been given responsibility for all planning and budgeting. Your assignment Is to prepare a master budget for the next 3 months, starting April 1st.

You are anxious to make a favorable impression on the president and have assembled the information below. The company desires a minimum ending cash balance each month of $10, 000. The ties are sold to retailers for $8 each.

Recent and forecasted sales In units are as follows: The large buildup in sales before and during June is due to Father's Day. Ending inventories are supposed to equal 90% of the next month's sales in units. The ties cost the company $5 each.

Purchases are paid for as follows: 50% In the month of purchase, and the remaining 50% in the following month All sales are on credit, with no discount, and payable within 15 days, however, only 25% of a month's sales are collected by month-end. An additional 50% is collected in he following month, and the remaining 25% is collected in the second month following sale.

Bad debts have been negligible. The company's monthly selling and administrative expenses are given below: Variable monthly expenses: Sales commissions (per unit) $1. 00 Fixed monthly expenses: Wages and salaries $22, 000. 00 utilities $14, 000.

00 Insurance $1, 200. 00 Depreciation $1, 500. 00 Miscellaneous $3, 000. 00 All selling and administrative expenses are paid during the month, in cash, with the exception AT percolation Ana Insurance explore. Lana wall De purchases ruling May for $25, 000 cash.

The company declares dividends of $12, 000 each quarter, payable in the first month of the following quarter.

The company's balance sheet at March 31 is given below: The company has an agreement with a bank that allows it to borrow in increments of $1, 000 at the beginning of each month, up too total loan balance of $40, 000. The interest rate on these loans is 1% per month, and for simplicity, we will assume that interest is not compounded. At the end of the quarter, the company would pay the bank all of the accumulated interest on the loan and as much of the loan as possible in increments of $1, 000), while still retaining at least $10, 000 in cash.

Assignments: Prepare a master budget for the three-month period ending June 30, including: * sales budget by month and in total * schedule of expected cash collections from sales, by month and in total * merchandise purchases budget in units and in dollars, by month and in total * schedule of expected cash disbursements for merchandise purchases, by month and in total * cash budget by month and in total * budgeted income statement for the three-month period ending June 30, with the nutrition approach * budgeted balance sheet as of June 30 Solutions: Based on the sale forecast from April to July and the expected cash collection portions in each month (25% – 50% – 25%) , a sales budget , a schedule of expected cash collections from sales, a merchandise purchases budget and schedule of expected cash disbursements were calculated and displayed in Table 1 .

Table 1 – Cravat Sales Company Expected sales, cash collections, and cash disbursements for merchandise purchases unit: USED The Cravat Sales Company was expected to spend $195, 750, $256, 250, and $251 , 250 n cash for purchasing of merchandises in April, May, and June respectively.

Totally, it would spend $703, 250 within the 2nd quarter. In the first attempt to forecast the cash funding, we found that the company could not borrow less than $40, 000 per month as agreed with the bank while maintaining ten Mullen analog cans Dalliance AT S at ten same time. T I comply only ten borrowing limit, it would keep marginal cash of $2, 250 in hands by end of April and suffer severe cash shortage of $37, 000 by the end of May. Table 2 – Cravat Sales Company Cash Budget the interest rate was 1% per month, no compounding For business continuation, the Cravat Sales Company must do something to hoard more cash during operations.

Otherwise, it would go bankrupt from liquidity problem, regardless of how good the sales performed. To survive from bankruptcy, we would suggest the management team to improve cash cycle, in order to maintain enough cash for operations.

Scenario 1: Negotiation with both customers and suppliers We preferred these new terms of payment (Table 3) over the old ones. Table 3 – Cravat Sales Company Liquidity Improvement Proposals We shall offer a 5% discount of selling price, in order to achieve the goal with retailers. Thus, selling price per unit in this quarter shall be dropped into $7. 60 Our suggestions, if execute successfully, the newly forecasted cash scenario would be improved as Table 4, 5.