Case 6-1 browning manufacturing

Business, Industries

Michellee Marie B. Chavez 2004-39460 BM 220 - Management Accounting 1) BROWNING MANUFACTURING COMPANY T-Accounts Cash Accounts Receivable Notes Payable 2, 604, 000. 00 144, 000. 00 2, 562, 000. 00 49, 200. 00 288, 840. 00 118, 440. 00 78, 000. 00 311, 760. 00 19, 200. 00 264, 000. 00 264, 000. 00 492, 000. 00 2, 604, 000. 00 552, 840. 00 198, 000. 00 2, 873, 760. 00 2, 672, 400. 00 49, 200. 00 201, 360. 00 Interest Expense 135, 600. 00 38, 400. 00 522, 000. 00 Finished Goods 38, 400. 00 38, 400. 00 257, 040. 00 1, 806, 624. 00 788, 400. 00 1, 901, 952. 00 Indirect Manufacturing Labor 9, 000. 00 2, 158, 992. 00 1, 806, 624. 0 198, 000. 00 36, 000. 00 352, 368. 00 198, 000. 00 52, 200. 00 2, 986, 440. 00 2, 542, 800. 00 Manufacturing plant and equipment Direct Manufacturing Labor 443, 640. 00 2, 678, 400. 00 492, 000. 00 144, 000. 00 492, 000. 00 Prepaid taxes and insurances 2, 822, 400. 00 66, 720. 00 52, 800. 00 Materials 78, 000. 00 Accounts Payable 110, 520. 00 811, 000. 00 144, 720. 00 52, 800. 00 788, 400. 00 825, 000. 00 825, 000. 00 91, 920. 00 66, 000. 00 935, 520. 00 811, 000. 00 185, 760. 00 124, 520. 00 788, 400. 00 1, 076, 760. 00 Income Taxes Payable 288, 360. 00 Work in Process 9, 000. 00 9, 000. 00 172, 200. 00 1, 901, 952. 00 5, 800. 0 Selling and Administrative Expense 811, 000. 00 9, 000. 00 14, 800. 00 522, 000. 00 1, 129, 200. 00 5, 800. 00 522, 000. 00 2, 112, 400. 00 1, 901, 952. 00 210, 448. 00 Supplies Depreciation :: 17, 280. 00 61, 200. 00 140, 400. 00 492, 000. 00 66, 000. 00 907, 200. 00 198, 000. 00 83, 280. 00 61, 200. 00 1, 047, 600. 00 49, 200. 00 22, 080. 00 135, 600. 00 52, 800. 00 Capital Stock Income Tax Expense 61, 200. 00 1, 512, 000. 00 58, 000. 00 140, 400. 00 1, 512, 000. 00 58, 000. 00 1, 129, 200. 00 Sales

Cost of Goods Sold Power, Heat and Light 2, 562, 000. 00 1, 806, 624. 00 135, 600. 00 2, 562, 000. 00 1, 806, 624. 00 135, 600. 00

Sales Returns and Allowances Sales Discounts Social Security Taxes 19, 200. 00 49, 200. 00 49, 200. 00 19, 200. 00 49, 200. 00 49, 200. 00 Retained Earnings 829, 560. 00 36, 000. 00 68, 576. 00 36, 000. 00 898, 136. 00 862, 136. 00 Statement of Retained Earnings Retained earnings, 12/31/09 $829, 560. 00 Add net income 68, 576. 00 898, 136. 00 Less dividends 36, 000. 00 Retained earnings, 12/31/10 $862, 136. 00 BROWNING MANUFACTURING COMPANY Projected 2010 Statement of Cost of Goods Sold Finished Goods Inventory, 1/1/10 $257, 040. 00 Work in process inventory, 1/1/10 $172, 200. 00 Materials used 811, 000. 00 Plus: Factory expenses

Direct manufacturing labor 492, 000. 00 Factory Overhead: Indirect manufacturing labor $198, 000. 00 Power, heat and light 135, 600. 00 Depreciation of plant 140, 400. 00 Social security taxes 49, 200. 00 Taxes and insurance, factory 52, 800. 00 Supplies 61, 200. 00 637, 200. 00 2, 112, 400. 00 Less: Work in process inventory, 12/31/10 210, 448. 00 Cost of goods manufactured 1, 901, 952. 00 2, 158, 992. 00 Less: Finished goods inventory, 12/31/10 352, 368. 00 Cost of goods sold $1, 806, 624. 00 2) BROWNING MANUFACTURING COMPANY Projected 2010 Income Statement Sales 2, 562, 000. 00 Less: Sales returns and allowances 19, 200. 00

Sales discounts allowed 49, 200. 00 68, 400. 00 Net Sales 2, 493, 600. 00 Less: Cost of Goods Sold 1, 806, 624. 00 Gross margin 686, 976. 00 Less: Selling and administrative expense 522, 000. 00 Operating Income 164, 976. 00 Less: Interest Expense 38, 400. 00 Income before federal and state income tax 126, 576. 00 Less: Estimated income tax expense 58, 000. 00 Net Income 68, 576. 00 BROWNING MANUFACTURING COMPANY Projected 2010 Balance Sheet Assets Current Assets: Cash and marketable securities $443, 640. 00 Accounts receivable (net of allowance for doubtful accounts) 201, 360. 00 Inventories: Materials $124, 520. 00

Work in process 210, 448. 00 Finished goods 352, 368. 00 Supplies 22, 080. 00 709, 416. 00 Prepaid taxes and insurance 91, 920. 00 Total current assets 1, 446, 336. 00 Other Assets: Manufacturing plant at cost 2, 822, 400. 00 Less: Accumulated depreciation 1, 047, 600. 00 1, 774, 800. 00 Total Assets $3, 221, 136. 00 Liabilities and Shareholders' Equity Current liabilities: Accounts Payable $288, 360. 00 Notes Payable 552, 840. 00 Income Taxes payable 5, 800. 00 Total current liabilities $847, 000. 00 Shareholders' equity: Capital stock 1, 512, 000. 00 Retained earnings 862, 136. 00 Total Liabilities and Shareholders' Equity $3, 221, 136. 00

Comparative Statement of Cost of Goods Sold, Projected 2010 vs. 2009 20092010% change Finished Goods Inventory, 1/1/10 218, 820. 00 257, 040. 00 17. 47% Work in process inventory, 1/1/10 137, 760. 00 172, 200. 00 25. 00% Materials used 663, 120. 00 811, 000. 00 22. 30% Direct manufacturing labor 419, 040. 00 492, 000. 00 17. 41% Indirect manufacturing labor 170, 640. 00 198, 000. 00 16. 03% Power, heat and light 116, 760. 00 135, 600. 00 16. 14% Depreciation of plant 126, 600. 00 140, 400. 00 10. 90% Social security taxes 42, 120. 00 49, 200. 00 16. 81% Taxes and insurance, factory 46, 320. 00 52, 800. 00 13. 99% Supplies 56, 880. 00 61, 200. 00 7. 9% Work in process inventory, 12/31/10 172, 200. 00 210, 448. 00 22. 21% Finished goods inventory, 12/31/10 257, 040. 00 352, 368. 00 37. 09% Comparative Income Statement, Projected 2010 vs. 2009 2009 2010 % change Sales 2, 295, 600. 00 2, 562, 000. 00 11. 60% Sales returns and allowances 17, 640. 00 19, 200. 00 8. 84% Sales discounts allowed 43, 920. 00 49, 200. 00 12. 02% Cost of Goods Sold 1, 568, 280. 00 1, 806, 624. 00 15. 20% Selling and administrative expense 437, 160. 00 522, 000. 00 19. 41% Interest Expense 34, 080. 00 38, 400. 00 12. 68% Estimated income tax expense 89, 520. 00 58, 000. 00 -35. 21% Net Income 105, 000. 00 68, 576. 0 -34. 69% Comparative Balance Sheet, Projected 2010 vs. 2009 2009 2010 % change Cash and marketable securities 118, 440. 00 443, 640. 00 274. 57% Accounts receivable 311, 760. 00 201, 360. 00 -35. 41% Materials 110, 520. 00 124, 520. 00 12. 67% Work in process 172, 200. 00 210, 448. 00 22. 21% Finished goods 257, 040. 00 352, 368. 00 37. 09% Supplies 17, 280. 00 22, 080. 00 27. 78% Prepaid taxes and insurance 66, 720. 00 91, 920. 00 37. 77% Manufacturing plant at cost 2, 678, 400. 00 2, 822, 400. 00 5. 38% Accumulated depreciation 907, 200. 00 1, 047, 600. 00 15. 48% Accounts Payable 185, 760. 00 288, 360. 00 55. 23% Notes Payable 288, 840. 0 552, 840. 00 91. 40% Income Taxes payable 9, 000. 00 5, 800. 00 -35. 56% Capital stock 1, 512, 000. 00 1, 512, 000. 00 0. 00% Retained earnings 829, 560. 00 862, 136. 00 3. 93% The comparison shows that in 2010, it is projected that there will be a significant increase by 274. 57% in the company’s cash and marketable securities. It can also be noted that accounts receivables for 2010 is expected to go down by 35. 41%, meaning the company will have more and faster collections of receivables, thus, increase in cash can be expected. On the other hand, notes payable and accounts payable is projected to increase by 91. 40% and 55. 3% respectively, which indicates that the company will not be able to pay its financial obligations in due time. Their credit standing as a company will worsen, because the company's expenses will be higher in 2010. They may have faster collections of receivables, however, payables and expenses increases, resulting to the inability of the company to become liquid. Aside from this, inventory turnover is expected to be low, meaning; the company will not be able to utilize its resources efficiently. It can also be attributed to the slight increase in sales which shows that the company is having a hard time disposing / using its resources.

Due to these projections, net income is also expected to decrease in 2010. 3) The company will fail to achieve its notes payable repayment goal of a year-end cash balance of $150, 000. 00 after paying off at least $350, 000. 00 of the notes payable, because after repaying $350, 000, year-end cash balance will decrease to $93, 640, which is short of its $150, 000 year-end cash balance. In order to achieve its minimum objective, the company should be able to increase its sales, and lessen the expenses as well as the payables.) Management's inventory turnover goal will not be achieved in 2010. Inventory turnover can be computed as: Cost of Goods Sold / Average Inventory 20091, 568, 280. 00/ [(218, 820. 00+257, 040. 00)/2] = 6. 59 20101, 806, 624. 00/ [(257, 040. 00+352, 368. 00)/2] = 5. 93 As shown in the above computation, inventory turnover in 2010 is lower than that of 2009. In the budget, inventory turnover goal is not indicated to be achieved. The company should analyze its market and demand of the people in order to evaluate how many of the goods should be prepared and ordered by them.

They should be aware of the average number of products that they should have and it will be determined based on the demand. They should also strategize by having effective marketing and selling techniques. 5) The budget shows that the company will have a poor credit trade standing due to its higher payables. This shows that the company is not able to pay its obligations in time, primarily because of its inability to monitor and control their expenses. Eventually, the company will have a hard time borrowing if there will have continuous past dues, thus, operations might soon be affected and eventually will not be sustained.