

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 \$100 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 \$60 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 50% of the following month's sales quantity.
- 6) Our store rent which includes all utilities is \$500 per month payable at the start of each month.
- 7) Our sales clerk costs us \$2,000 per month.
- 8) We will pay \$500 per month on advertising at the first of each month.
- 9) We will spend \$80 per month on store supplies.
- 10) We will spend \$400 per month for bookkeeping services.
- 11) We will spend \$700 per month for all other general and administrative expenses.
- 12) We will spend \$3,120 in the first month to purchase a computer system. We will use the computer for two 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 | 200 | 400 | 600 | 800 |

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 | 200 | 400 | 600 | 800 |
| Price per Unit | 100 | 100 | 100 | 100 |
| Sales per Month | 20,000 | 40,000 | 60,000 | 80,000 |

| PURCHASES | January | February | March |
|--------------------------|----------------|-----------------|--------------|
| Next Month's Sales | 400 | 600 | 800 |
| % for Ending Inventory | 50% | 50% | 50% |
| Ending Inventory | 200 | 300 | 400 |
| Sales for Current Month | 200 | 400 | 600 |
| Quantity to be Available | 400 | 700 | 1,000 |
| Less Beginning Inventory | 0 | 200 | 300 |
| Quantity to Purchase | 400 | 500 | 700 |
| Cost per Unit | 60 | 60 | 60 |
| Purchases per Month | 24,000 | 30,000 | 42,000 |

| SELLING EXPENSES | January | February | March |
|-------------------------|----------------|-----------------|--------------|
| Store Rent | 500 | 500 | 500 |
| Sales Salary | 2,000 | 2,000 | 2,000 |
| Advertising | 500 | 500 | 500 |
| Store Supplies | 80 | 80 | 80 |
| Amortization | 130 | 130 | 130 |
| Total Selling Expenses | 3,210 | 3,210 | 3,210 |

| G & A EXPENSES | January | February | March |
|---------------------------|----------------|-----------------|--------------|
| Bookkeeping | 400 | 400 | 400 |
| Other G & A Expenses | 700 | 700 | 700 |
| Total General & Admin. | 1,100 | 1,100 | 1,100 |

| CAPITAL EXPENDITURES | January | February | March |
|-----------------------------|----------------|-----------------|--------------|
| Computer | 3,120 | | |
| Total Expenditures | 3,120 | | |

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

| CASH BUDGET | | January | February | March |
|--|----------------------|----------------|-----------------|--------------|
| Cash at Beginning of Month | | 0 | 700 | 520 |
| Cash Receipts from Customers | Jan Sales | 10,000 | 8,000 | 2,000 |
| | Feb Sales | 0 | 20,000 | 16,000 |
| | Mar Sales | 0 | 0 | 30,000 |
| Cash before Disbursements to Suppliers | | 10,000 | 28,700 | 48,520 |
| Cash Disbursements to Suppliers | Jan Purch. | 12,000 | 12,000 | |
| | Feb Purch. | 0 | 15,000 | 15,000 |
| | Mar Purch. | 0 | 0 | 21,000 |
| Cash before other disbursements | | (2,000) | 1,700 | 12,520 |
| Other Disbursements: Store Rent | | 500 | 500 | 500 |
| | Sales Salary | 2,000 | 2,000 | 2,000 |
| | Advertising | 500 | 500 | 500 |
| | Store Supplies | 80 | 80 | 80 |
| | Bookkeeping | 400 | 400 | 400 |
| | Other G & A Expenses | 700 | 700 | 700 |
| | Purchase of Computer | 3,120 | | |
| Total of Other Disbursements | | 7,300 | 4,180 | 4,180 |
| Cash before Other Adjustments | | (9,300) | (2,480) | 8,340 |
| Investment by Owner | | 10,000 | 3,000 | 0 |
| Cash at End of Month | | 700 | 520 | 8,340 |

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

| | | | |
|------------------------------------|---------------|----------------|--|
| Sales | | <u>120,000</u> | |
| Cost of Goods Sold: | | | |
| Beginning Inventory | <u>0</u> | | |
| Plus Purchases | <u>96,000</u> | | |
| Goods Available for Sale | <u>96,000</u> | | |
| Less Ending Inventory | <u>24,000</u> | | |
| Cost of Goods Sold | | <u>72,000</u> | |
| Gross Profit | | <u>48,000</u> | |
| Selling Expenses: | | | |
| Store Rent | <u>1,500</u> | | |
| Sales Salary | <u>6,000</u> | | |
| Advertising | <u>1,500</u> | | |
| Store Supplies | <u>240</u> | | |
| Amortization of Computer | <u>390</u> | | |
| Total Selling Expenses | | <u>9,630</u> | |
| General & Administrative Expenses: | | | |
| Bookkeeping | <u>1,200</u> | | |
| Other G & A Expenses | <u>2,100</u> | | |
| Total General & Admin Expenses | | <u>3,300</u> | |
| Total Operating Expenses | | <u>12,930</u> | |
| Income from Operations | | <u>35,070</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>35,070</u> | | |
| Owner Investment | <u>13,000</u> | 48,070 | |
| | | <u>48,070</u> | |
| Less: Owner Withdrawal | | <u>0</u> | |
| Owner Equity March 31 | | <u>48,070</u> | |

* Less Ending Inventory of \$24,000 equals 400 Units March 31 time \$60 cost per unit

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

| | | |
|----------------------------------|--------|--------|
| Current Assets: | | |
| Cash | 8,340 | |
| Accounts Receivable | 34,000 | |
| Inventory | 24,000 | |
| Total Current Assets | | 66,340 |
| Capital Assets: | | |
| Computer | 3,120 | |
| Less Acc.Amort. | 390 | |
| Total Capital Assets | | 2,730 |
| Total Assets | | 69,070 |
| | | |
| Liabilities: | | |
| Accounts Payable | | 21,000 |
| Owner Equity | | 48,070 |
| Total Liabilities & Owner Equity | | 69,070 |

Accounts Receivable of \$34,000 is calculated as follows:

| | |
|--|--------|
| January Sales uncollected at March 31 (all has been collected) | 0 |
| February Sales uncollected at March 31 (10% of 40,000) | 4,000 |
| March Sales uncollected at March 31 (50% of 60,000) | 30,000 |
| Accounts Receivable at March 31 | 34,000 |

Accounts Payable of \$21,000 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 Sales unpaid at March 31 (50% of 42,000) | 21,000 |
| Accounts Payable at March 31 | 21,000 |