

ACC 1110 Fall 2021 Budgeting Case

Due January 14 by 4 pm CST; Submit vis UM Learn Dropbox, only the most recent submission is kept.

The following data relate to the operations of Milley Corporation, and wholesale distributor of durable hats with hidden pockets that are popular for adventure travel. The hats are sold in travel boutiques and department stores nationwide.

Current assets as of December 31:	
Cash	\$6,000
Accounts Receivable	36,000
Inventory	9,800
Buildings and Equipment, net	110,885
Accounts Payable	32,550
Common Shares	100,000
Retained Earnings	30,135

- a. The gross margin is 30% of sales.
- b. Actual and budgeted sales data are as follows:

December (actual)	\$60,000
January	70,000
February	80,000
March	85,000
April	55,000

- c. Sales are 40% for cash and 60% on credit. Credit sales are collected in the month following sale. The accounts receivable at December 31 are the result of December credit sales.
- d. Each month's ending inventory should equal 20% of the following month's budgeted cost of goods sold.
- e. One-quarter of a month's inventory purchases is paid for in the month of purchase; the other three-quarters is paid for in the following month. The accounts payable at December 31 are the result of December purchases of inventory.
- f. Monthly expenses are as follows: commissions, \$12,000; rent \$1,800; other expenses (excluding depreciation), 8% of sales. Assume that these expenses are paid monthly. Depreciation is \$2,400 for the quarter and includes depreciation on new assets acquired during the quarter.
- g. Equipment will be acquired for cash: \$3,000 in January and \$8,000 in February.
- h. Management would like to maintain a minimum cash balance of \$5,000 at the end of each month. The company has an agreement with a local bank that allows the company to borrow in increments of \$1,000 at the beginning of each month, up to a

total loan balance of \$50,000. The interest rates on these loans is 1% per month, and for simplicity, we will assume that interest is not compounded. The company would, as far as it is able, repay the loan plus accumulated interest at the end of the quarter.

Required part a):

- Using the data above, complete the following schedules **using excel**:

Schedule of Expected Cash Collections				
	January	February	March	Quarter
Cash Sales	\$28,000			
Credit Sales	<u>36,000</u>	_____	_____	_____
Total Collections	\$64,000			

Merchandise Purchases Budget				
	January	February	March	Quarter
Budgeted Cost of Goods sold	\$49,000 ^a			
Add desired ending inventory	<u>11,200^b</u>	_____	_____	_____
Total needs	\$60,200			
Less beginning inventory	<u>9,800</u>			
Required purchases	50,400			
^a \$70,000 sales*70%=\$49,000				
^b \$80,000*70%*20%=\$11,200				

Schedule of Expected Cash Disbursements: Merchandise Purchases				
	January	February	March	Quarter
December Purchases	\$32,550 ^a			\$32,550
January Purchases	12,600	\$37,800		50,400
February Purchases				
March Purchases		_____	_____	_____
Total Disbursements	<u>\$45,150</u>			
^a Beginning balance of accounts payable				

Schedule of Expected Cash Disbursements: Selling and Administrative Expenses				
	January	February	March	Quarter
Commissions	\$12,000			
Rent	1,800			
Other Expenses	<u>5,600</u>	_____	_____	_____
Total Disbursements	\$19,400			

Cash Budget				
	January	February	March	Quarter
Cash balance, beginning	\$6,000			
Add cash collections	<u>64,000</u>	_____	_____	_____
Total cash available	<u>70,000</u>	_____	_____	_____
For inventory	45,150			
For operating expenses	19,400			
For equipment	<u>3,000</u>	_____	_____	_____
Total cash disbursements	<u>67,550</u>	_____	_____	_____
Excess (deficiency) of cash	\$2,450			
Financing:				
Etc.				

2. Prepare an absorption costing income statement for the quarter ended March 31.
3. Prepare a balance sheet as at March 31.

Required part b):

- 1) Imagine the COVID-19 pandemic had started in December (the month preceding the schedules you completed in part a) 2018. Milley Manufacturing now estimates that sales (in units and dollars) will be 40% less than originally anticipated for January, February and March and hopes that normal operations will resume in April and May. As a result, the company should qualify for the Canada Emergency Wage Subsidy (Claim Period 2 which reimbursed the company for 75% of its wages as long as payments to employees were not reduced and revenues declined at least 30%. Recalculate the budgets and statements from parts 1 and 2, identifying the assumptions you must make. Enter your schedules in a separate Excel worksheet in the same file as your part a).

Required part c):

- 1) Provide any suggestions, recommendations, or issues for the company to consider in making their decision. So, for example, you could suggest other ideas that the company could incorporate into future iterations of the budget (it is not necessary to do more than the two versions we have already required: the first original version, and second version incorporating the Canada Emergency Wage Subsidy). Don't be afraid to "think outside the box": That's what companies, and all of us, have had to do! Enter your answer in a third excel worksheet, using "merge cells" to create a box large enough to display all of your answer.
- 2) Rename your three excel worksheets "Part a", "Part b", and "Part c".

PROJECT TEAM PEER EVALUATIONS (this form is also available in a separate file)

As a group, you may evaluate the contribution of each team member to each article project. If, in the view of the group, all members contributed fully and equally to the final project, each member should receive a Contribution Score of 100% (as this is the default, it is not necessary to submit a form). If one or more members did not contribute fully and equally, the members of the group can elect to give him/her a score less than 100% (minimum = 0). Each member of the group is entitled to submit an assessment of the team member contributions, and each team member will receive the average of all the assessments. The grade for each member will be equal to the grade assigned for the group project, multiplied by that individual's average Contribution Score.

EXAMPLE: Students A, B and C worked together on the project. A and B worked very hard, while C put in only limited time. As a result, A and B had to do their own work and a good deal of the work that C had promised to do. A and B submitted forms giving themselves Contribution Scores of 100% each, with C deserving only 60%. C did not submit a form, so the default of 100% for all members applies for C's assessment. The project received a final grade of 70%. A and B would each receive individual grades of (70% X 100% =) 70% for the project, while C would receive a grade of (70% X {60%+60%+100%/3} = 51%).

Member name (print)	Contribution Score (max. = 100%)

Name of submitting member _____ Signature _____