**COURSE PROJECT 1 INSTRUCTIONS**

You have just been contracted as a budget consultant by LBJ Company, a distributor of bracelets to various retail outlets across the country. The company has done very little in the way of budgeting and at certain times of the year has experienced a shortage of cash.

You have decided to prepare a cash budget for the upcoming fourth quarter in order to show management the benefits that can be gained from proper cash planning. You have worked with accounting and other areas to gather the information assembled below.

The company sells many styles of bracelets, but all are sold for the same $10 price. Actual sales of bracelets for the last three months and budgeted sales for the next six months follow:

|  |  |
| --- | --- |
| July (actual) | 20,000 |
| August (actual) | 26,000 |
| September (actual) | 40,000 |
| October (budget) | 70,000 |
| November (budget) | 110,000 |
| December (budget) | 60,000 |
| January (budget) | 30,000 |
| February (budget) | 28,000 |
| March (budget) | 25,000 |

The concentration of sales in the fourth quarter is due to the Christmas holiday. Sufficient inventory should be on hand at the end of each month to supply 40% of the bracelets sold in the following month.

Suppliers are paid $4 for each bracelet. Fifty-percent of a month's purchases is paid for in the month of purchase; the other 50% is paid for in the following month. All sales are on credit with no discounts. The company has found, however, that only 20% of a month's sales are collected in the month of sale. An additional 70% is collected in the following month, and the remaining 10% is collected in the second month following sale. Bad debts have been negligible.

Monthly operating expenses for the company are given below:

Variable expenses:

Sales commissions 4% of sales

Fixed expenses:

Advertising $220,000

Rent $20,000

Salaries $110,000

Utilities $10,000

Insurance $5,000

Depreciation $18,000

Insurance is paid on an annual basis, in January of each year.

The company plans to purchase $22,000 in new equipment during October and $50,000 in new equipment during November; both purchases will be for cash. The company declares dividends of $20,000 each quarter, payable in the first month of the following quarter.

Other relevant data is given below:

Cash balance as of September 30 $74,000

Inventory balance as of September 30 $112,000

Merchandise purchases for September $200,000

The company maintains a minimum cash balance of at least $50,000 at the end of each month. All borrowing is done at the beginning of a month; any repayments are made at the end of a month.

The company has an agreement with a bank that allows the company to borrow the exact amount needed at the beginning of each month. 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 will pay the bank all of the accrued interest on the loan and as much of the loan as possible while still retaining at least $50,000 in cash.

*Required:*

Prepare a cash budget for the three-month period ending December 31. Include the following detailed budgets:

1.

*a*. A sales budget, by month and in total.

*b*. A schedule of expected cash collections from sales, by month and in total.

*c*. A merchandise purchases budget in units and in dollars. Show the budget by month and in total.

*d*. A schedule of expected cash disbursements for merchandise purchases, by month and in total.

2. A cash budget. Show the budget by month and in total. Determine any borrowing that would be needed to maintain the minimum cash balance of $50,000.