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Managerial Accounting Case 2

McMurray & Sons is a retailer of stuffed animals. All items in the store sell for the same \$18 selling price. McMurray estimates that 25% of its sales are for cash and 75% are on account. Other information regarding the company's budgeted sales and collection of credit sales are as follows:

<u>Budgeted sales in units</u>		<u>Credit Sales Collection Pattern</u>			
November	5,000	Collected in same month as sale	40%	Cash:	25%
December	9,000	Collected 1 month following sale	50%	Credit:	75%
January	1,000	Collected 2 months following sale	9%	Marginal Cost:	\$6
February	2,000	Estimated to be uncollectible	1%	Anticipated:	10%
March	2,500			Dec. Purchases:	###
April	3,000			Monthly Expenses:	###
				Jan. Transaction:	\$4,000.00
				Feb. Transaction:	\$9,000.00
				Initial Funds:	###

McMurray buys its animals from one supplier at a cost of \$6 per animal. It pays for all of its merchandise purchases in the month following purchase. McMurray began January with 100 stuffed animals in inventory. The company has a purchases budget policy of having 10% of the following month's anticipated sales in stock at the end of every month. December's purchases totaled \$49,200.

McMurray's monthly expenses are as follows:

\$ 1,500	Depreciation of store building & fixtures
15,000	Salaries and other payroll items
2,500	Advertising
2,000	Utilities
7,000	Other operating expenses
<u>\$ 28,000</u>	

In addition to these expenses, McMurray pays insurance premiums of \$4,000 in January and June, and pays \$9000 in property taxes every February.

McMurray began January with \$25,000 in its bank account. The company maintains a minimum cash balance of \$25,000. An open line of credit is available from the company's bank to bolster its cash position when needed. Any excess cash over \$25,000 should be applied against monies borrowed. (Ignore interest)

REQUIRED:

- (1) Prepare a schedule of cash collections for January, February, and March.
- (2) Prepare a merchandise purchases budget for January, February, and March.
- (3) Prepare a cash budget for January, February, and March.

NOTE: Assignment must be TYPED. Suggest using EXCEL spreadsheet.

Answers

Initial Balance = \$25,000.00

Month	Revenue (\$)		Purchases (\$)		Transactions		Income
January	\$99,000.00	-	\$45,480.00	-	\$ 32,000	=	\$21,520.00
February	\$43,380.00	-	\$6,600.00	-	\$ 37,000	=	-\$220.00
March	\$44,370.00	-	\$12,300.00	-	\$ 28,000	=	\$4,070.00

Month	Balance		Income		Debts Owed		Final Balance
January	\$25,000.00	+	\$21,520.00	-	0	=	\$46,520.00
February	\$46,520.00	+	-\$220.00	-	0	=	\$46,300.00
March	\$46,300.00	+	\$4,070.00	-	0	=	\$50,370.00