Group Project

Unit Four

ACG_420

Managerial Accounting

And

Organizational Controls

July 1, 2006

Victoria Kite Company's

Master Budget

Schedules

Schedule A: Sales Budget	January	February	March	**Total**
Recent & Forecasted Sales	$62,000	$75,000	$38,000	**$175,000**

Schedule B: Cash Collections	January	February	March	**Totals**
60% of Current Month Sales	$37,200	$45,000	$22,800	**$105,000**
30% of Previous Month Sales	7,500	18,600	22,500	**48,600**
10% of 2 Months Earlier	2,500	2,500	6,200	**11,200**
Totals	**$ 47,200**	**$ 66,100**	**$ 51,500**	**$ 164,800**

Schedule C: Purchases	January	February	March	**Totals**
Desired ending inventory	$ 6,000	$ 6,000	$ 6,000	**$ 18,000**
Cost of goods sold	31,000	37,500	19,000	**87,500**
Total needed	37,000	43,500	25,000	**105,500**
Less beginning inventory	39,050	8,050	6,000	**53,100**
Purchases	**$ -**	**$ 35,450**	**$ 19,000**	**$ 52,400**

Schedule D: Disbursements	January	February	March	**Total**
100% of last months purchases	$ 35,550	$ -	$ 35,450	**$ 71,000**

Cash Budget	Jan	Feb	March
Beginning cash balance	$ 5,000	$ 5,100	$37,692
Minimum cash balance desired	$ 5,000	$ 5,000	$ 5,000
Available cash balance	$ -	$ 100	$32,692
Cash Receipts and Disbursements			
Cash Collections	$ 47,200	$ 66,100	$51,500
Cash Disbursements for Purchases	$ 35,550	$ -	$35,450
Rent	$ 8,050	$ 250	$ 250
Wages & Salaries	$ 15,000	$ 15,000	$15,000
Miscellaneous	$ 2,500	$ 2,500	$ 2,500
Fixtures			$ 3,000
Dividends	$ 1,500		
Net Cash receipts and disbursements	$(15,400)	$ 48,350	$(4,700)
Excess (deficiency of cash before financing	$(15,400)	$ 48,450	$27,992
Financing			
Borrowing	$ 15,500		
Repayments		$(15,500)	
Interest		$ (258)	
Total Cash from financing	$ 15,500	$(15,758)	
Ending Cash Balance	$ 5,100	$ 37,692	$32,992

Budgeted Income Statement	
(Covering 3 months Jan - March)	
	March
Sales	$175,000
Cost of Goods Sold (Schedule c)	$ 87,500
Gross Margin (Schedule c)	$ 87,500
Operating Expenses	
Wages and Salaries	$ 45,000
Rent	$ 17,250
Miscellaneous	$ 7,500
Insurance	$ 375
Depreciation	$ 750
Total Operating Expense	**$ 70,875**
Income from Operations	$ 16,625
Interest Expense	$ 258
Cash Budget Net Income	**$ 16,367**

Budgeted Balance Sheet	
Assets	**March**
Current Assets	
Cash	$ 32,992
Accounts receivable	$ 22,700
Inventory	$ 6,000
Unexpired insurance ($1,500 - $375)	$ 1,125
Total current assets	$ 62,817
Plant assets, less accumulated depreciation of $250 per month	$ 14,750
Total assets	**$ 77,567**
Liabilities and Equities	
Liabilities	
Accounts payable	$ 19,000
Notes Payable	$ -
Rent Payable	$ 16,500
Dividends	$ 1,500
Total liabilities	$ 37,000
Retained earnings	$ 40,567
Total equities	$ 40,567
Total liabilities and equities	**$ 77,567**

Victoria Kite Company is a small Melbourne firm that sells kites on the Web wants a master budget for the next three months, beginning January 1, 2005. When developing the master budget it was discovered that only 60% of the current sales are collected in the current month, 30% in the next month, and 10% in the month thereafter, although the terms and conditions for repayment of sales is 30 days. An ending minimum cash balance of $5,000 is desired at the end of each month and the budget shows an ending balance of ($10,400) therefore creating the need for a loan of $15,500 giving Victoria Kite Company a closing cash balance of $5,100 at the end of January 2005. (See table 1) Victoria Kite Company needs to take out a bank loan due to the lack of funds to pay the larger rent and monthly costs. The company only has the minimum starting cash balance causing a shortage when subtracting the disbursements from the cash receipts.

Table 1

Cash budget	Jan-05	Feb-05	Mar-05
Cash balance at the beginning of the month	$5,000.00	$5,100.00	$37,692.00
Cash collected from sales	$47,200.00	$66,100.00	$51,500.00
Total cash available	$52,200.00	$71,200.00	$89,192.00
Cash disbursed for operations	($61,100.00)	($17,750.00)	($53,200.00)
Furniture's & Fixtures			($3,000.00)
Dividends	($1,500.00)		
Total cash disbursement	($62,600.00)	($17,750.00)	($56,200.00)
Balance at the end of month before bank loan	($10,400.00)	$53,450.00	$32,992.00
Required closing balance	$5,000.00	$5,000.00	$5,000.00
Bank loan received	$15,500.00		
Bank loan repaid		($15,500.00)	
Interest repaid		($258.00)	
Closing Cash balance	$5,100.00	$37,692.00	$32,992.00

Other causes for the need of a bank loan could be when a company is going through a renovation stage and is having larger than normal purchases of materials or fixtures or when a business deals with collecting payments from customers. Whether this is a retail establishment or a manufacturing company paid for goods, the payments received from customers usually has a set of terms and conditions. Customers sometimes adhere to these terms and conditions, but usually try to stretch them out as long as they can. This delay in payment can cause a cash crunch on a business. A bank loan can give a business the cushion needed to be sure employees have wages paid on time, provide the money needed for the next order of supplies needed to manufacture more products, or help to pay for other operating expenses while awaiting the cash and credit payments to come in.

Another option to taking out a loan for the Victoria Kite Company is with its initial negotiations with its vendors and suppliers before starting the business. By negotiating flexible terms and conditions with its vendors it might be able to avoid needing a loan at the initial startup. An example of this would be to request net 60 or 90 day terms for the first 3 months and then reverting to the standard net 30 day terms that are common in business today. By doing this on selective accounts you could in essence lower your initial cash out lay until your cash collections catches up to sales at the end of 3 months. One other option would be to offer a cash back discount like 5% for paying within the specified net 30 day terms. This offers an incentive to both the customer and the company.

The Victoria Kite Company comes to a negative excessive cash balance in January requiring them to get a bank loan. The terms of the loan are the loan has to be paid in $500 increments with 10% interest rate. The accounts receivable, cash and credit payments are the income sources that will be used to repay the bank loan. A bank loan also helps a company grow faster than it may be able to grow without the added money. If a business is working at its full capacity and still unable to meet customer demand, it may be worth taking out a bank loan to increase the facility to be able to meet customer demand. Repayment of the bank loan will be paid back in full with interest in the month of February 2005 due to the increase cash collections from sales operation sources providing the cash flow for the repayment of the bank loan.

References:

1. Horngren, Sundem, Stratton (2005) Introduction to Management Accounting 13 Edition, Prentice Hill ISBN 0-13-144071-3
2. Unit 4 Course Materials Retrieved June 24, 2006