

## Exercise 8-7

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1

Treeforms Outfitters is a retailer that is preparing its budget for the upcoming fiscal year. Management has prepared the following summary of its budgeted cash flows:

	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
Total cash receipts	\$650,000	\$700,000	\$490,000	\$510,000
Total cash disbursements	\$850,000	\$485,000	\$460,000	\$525,000

The company's beginning cash balance for the upcoming fiscal year will be \$35,000. The company requires a minimum cash balance of \$25,000 and may borrow any amount needed from a local bank at a quarterly simple interest rate of 5%. The company may borrow any amount at the beginning of any quarter and may repay its loans, or any part of its loans, at the end of any quarter. Interest payments are due on any principal at the time it is repaid.

**Required:**

Prepare the company's cash budget for the upcoming fiscal year.

[LO8]

2

**Required:** Prepare the company's cash budget for the upcoming fiscal year.

Treeforms Outfitters					
Cash Budget					
	Q1	Q2	Q3	Q4	Year
Cash balance, beginning	\$ 35,000	\$ 25,000	\$ 31,000	\$ 61,000	\$ 35,000
Total cash receipts	<u>650,000</u>	<u>700,000</u>	<u>490,000</u>	<u>510,000</u>	<u>2,350,000</u>
Total cash available	685,000	725,000	521,000	571,000	2,385,000
Less total cash disbursements	<u>850,000</u>	<u>485,000</u>	<u>460,000</u>	<u>525,000</u>	<u>2,320,000</u>
Excess (deficiency) of cash available over disbursements	<u>(165,000)</u>	<u>240,000</u>	<u>61,000</u>	<u>46,000</u>	<u>65,000</u>
Financing:					
Borrowings (at beginning)	190,000				190,000
Repayments (at ending)		(190,000)			(190,000)
Interest		(19,000)			(19,000)
Total financing	<u>190,000</u>	<u>(209,000)</u>	<u>0</u>	<u>0</u>	<u>(19,000)</u>
Cash balance, ending	<u>\$ 25,000</u>	<u>\$ 31,000</u>	<u>\$ 61,000</u>	<u>\$ 46,000</u>	<u>\$ 46,000</u>

3

## Exercise 8-8

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4

Boston Bob's is the wholesale distributor of a recreational kayak. Management has prepared the following summary data to use in its annual budgeting process:

Budgeted unit sales	4,000
Selling price per unit	\$495
Cost per unit	\$430
Variable selling and administrative expenses (per unit)	\$21
Fixed selling and administrative expenses (per year)	\$65,000
Interest expense for the year	\$14,000

**Required:**

Prepare the company's budgeted income statement using an absorption income statement format as shown (financial statement format).

[LO9]

5

**Required:** Prepare the company's budgeted income statement using an absorption income statement format (financial statement format).

Boston Bob's		
Budgeted Income Statement		
Sales	\$1,980,000	(4,000 units @ \$495)
Cost of goods sold	<u>1,720,000</u>	(4,000 units @ \$430)
Gross margin	260,000	
Selling and administrative expenses	<u>149,000</u>	(4,000 units @ \$21 + \$65,000)
Net operating income	111,000	
Interest expense	<u>14,000</u>	
Net income	<u>\$ 97,000</u>	

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