Problem 9-14 (45 minutes)

1. Schedule of expected cash collections:

	Month			
	July	*August*	*September*	*Quarter*
From accounts receivable:				
May sales				
$250,000 × 3%.........	$ 7,500			$ 7,500
June sales				
$300,000 × 70%........	210,000			210,000
$300,000 × 3%.........		$ 9,000		9,000
From budgeted sales:				
July sales				
$400,000 × 25%........	100,000			100,000
$400,000 × 70%........		280,000		280,000
$400,000 × 3%.........			$ 12,000	12,000
August sales				
$600,000 × 25%........		150,000		150,000
$600,000 × 70%........			420,000	420,000
September sales				
$320,000 × 25%........			80,000	80,000
Total cash collections	$317,500	$439,000	$512,000	$1,268,500

Problem 9-14 (continued)

2. Cash budget:

	Month			
	July	*August*	*September*	*Quarter*
Cash balance, beginning	$ 44,500	$ 28,000	$ 23,000	$ 44,500
Add receipts:				
Collections from customers	317,500	439,000	512,000	1,268,500
Total cash available	362,000	467,000	535,000	1,313,000
Less disbursements:				
Merchandise purchases	180,000	240,000	350,000	770,000
Salaries and wages	45,000	50,000	40,000	135,000
Advertising	130,000	145,000	80,000	355,000
Rent payments	9,000	9,000	9,000	27,000
Equipment purchases	10,000	—	—	10,000
Total disbursements	374,000	444,000	479,000	1,297,000
Excess (deficiency) of receipts over disbursements	(12,000)	23,000	56,000	16,000
Financing:				
Borrowings	40,000	—	—	40,000
Repayments	—	—	(40,000)	(40,000)
Interest	—	—	(1,200)	(1,200)
Total financing	40,000	—	(41,200)	(1,200)
Cash balance, ending	$ 28,000	$ 23,000	$ 14,800	$ 14,800

3. If the company needs a $20,000 minimum cash balance to start each month, then the loan cannot be repaid in full by September 30. If the loan is repaid in full, the cash balance will drop to only $14,800 on September 30, as shown above. Some portion of the loan balance will have to be carried over to October, at which time the cash inflow should be sufficient to complete repayment.