

Budget Practice

Student: _____

1. Caprice Corporation is a wholesaler of industrial goods. Data regarding the store's operations follow:
 - Sales are budgeted at \$350,000 for November, \$320,000 for December, and \$300,000 for January.
 - Collections are expected to be 80% in the month of sale, 16% in the month following the sale, and 4% uncollectible.
 - The cost of goods sold is 70% of sales.
 - The company desires an ending merchandise inventory equal to 60% of the cost of goods sold in the following month. Payment for merchandise is made in the month following the purchase.
 - The November beginning balance in the accounts receivable account is \$78,000.
 - The November beginning balance in the accounts payable account is \$254,000.

Required:

- a. Prepare a Schedule of Expected Cash Collections for November and December.
- b. Prepare a Merchandise Purchases Budget for November and December.

2. LFM Corporation makes and sells a product called Product WZ. Each unit of Product WZ requires 3.5 hours of direct labor at the rate of \$16.00 per direct labor-hour. Management would like you to prepare a Direct Labor Budget for June.

The company plans to sell 31,000 units of Product WZ in June. The finished goods inventories on June 1 and June 30 are budgeted to be 100 and 600 units, respectively. Budgeted direct labor costs for June would be:

- A. \$1,764,000
- B. \$504,000
- C. \$1,708,000
- D. \$1,736,000

Key

1. Caprice Corporation is a wholesaler of industrial goods. Data regarding the store's operations follow:

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- Prepare a Merchandise Purchases Budget for November and December.

a.		November	December
	Sales.....	\$350,000	\$320,000
	Schedule of Expected Cash Collections		
	Accounts receivable	\$ 78,000	
	November sales (80% × \$350,000; 16% × \$350,000).....	280,000	\$ 56,000
	December sales (80% × \$320,000).....		256,000
	Total cash collections	\$358,000	\$312,000
b.		November	December
	Merchandise Purchases Budget		
	Cost of goods sold (70% × \$350,000; 70% × \$320,000).....	\$245,000	\$224,000
	Add desired ending merchandise inventory (60% × \$224,000; 60% × 70% × \$300,000)	134,400	126,000
	Total needs.....	379,400	350,000
	Less beginning merchandise inventory (60% × \$245,000; 60% × \$224,000).....	147,000	134,400
	Required purchases	\$232,400	\$215,600

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Direct Labor Budget

	June
Budgeted unit sales.....	31,000
Add desired ending finished goods inventory	600
Total needs	31,600
Less beginning finished goods inventory.....	100
Required production in units	31,500
Direct labor-hours per unit	3.5
Total direct labor-hours needed.....	110,250
Direct labor cost per hour	\$16.00
Budgeted direct labor costs for June	\$1,764,000