

INSTRUCTIONS: On the following pages, prepare monthly budgets for the following:

- Sales budget (10 points)
- Purchases budget (10 points)
- Selling expenses budget (10 points)
- General and Administrative expenses budget (10 points)
- Capital expenditures budget (5 points)
- Cash receipts budget (10 points)
- Cash payments budget (10 points)
- Cash budget (20 points)
- Budgeted quarterly income statement (20 points)
- Budgeted balance sheet as of March 31 (20 points)



TriStar Corporation is preparing its annual master budget for the first quarter of the year. TriStar sells a single product for \$10.40 per unit. Sales are 40% cash and 60% credit. Credit sales are collected 40% in the month of the sale, 60% the month following the sale. December 31 Accounts Receivable balance is \$25,203. Uncollected accounts are negligible. Projected monthly sales are as follows:

- January: 9,760 units
- February: 10,520 units
- March: 11,040 units

TriStar desires an ending merchandise inventory for each month equal to 40% of next month's sales. April's sales are estimated to be 8,680 units. December 31 ending Merchandise Inventory balance was 8,394 units. The purchase price per unit has been estimated at \$3.00 per unit. The company purchases all merchandise on account. The typical payment for merchandise is 70% of the purchases in the month of purchase and 30% in the following month. TriStar's December 31 Accounts Payable balance is \$25,180.

The following expenses exist for TriStar:

- Advertising expense is 2.5% of net sales
- Delivery expense is \$0.25 per unit
- Depreciation expense—Selling Equipment is \$1,980 per year
- Sales commissions are 5% of net sales
- Sales salaries expense is \$4,000 per month.
- Depreciation expense – Office Equipment is \$4,800 per year
- Insurance expense is \$600 per quarter
- Rent Expense is \$6,000 per quarter
- Salary expense is \$8,150 month
- Utilities expense is \$1,968 per quarter
- Miscellaneous expenses are 50% of administrative salaries

The company is planning to expand its facilities this quarter. Anticipated quarterly expenditures are \$65,000 for land to be purchased in February, and \$35,000 for the building to be expended at the end of March. All of the equipment for this expansion will be purchased in the second quarter. The beginning cash balance is \$25,000. TriStar has an agreement with the bank to maintain a \$25,000 cash balance. If the balance falls below \$25,000, TriStar will borrow funds from the bank at 12% interest. TriStar currently has an outstanding loan balance of \$22,000 with the bank. The company's income tax rate is 30%--the income tax is paid on April 15.

Balances from the December 31 balance sheet are as follows:

- Selling Equipment \$16,000 – accumulated depreciation \$9,900
- Office Equipment \$30,000 – accumulated depreciation \$13,920
- Common Stock 5,000 shares \$5 par value. No new stock will be issued this quarter
- Retained earnings \$25,385