

Exam I

1)

**Horizontal Analysis.** Smith Corporation provides the following comparative income statement:

*Smith Corporation*  
*Comparative Income Statement*  
*For the Years Ended Dec. 31, 19X3 and 19X2*

	<b>19X3</b>	<b>19X2</b>
Sales	\$570,000	\$680,000
Cost of goods sold	<u>200,000</u>	<u>170,000</u>
Gross profit	\$370,000	\$510,000
Operating expenses	<u>100,000</u>	<u>210,000</u>
EBIT	<u>\$270,000</u>	<u>\$300,000</u>

(a) Calculate the percentage change using horizontal analysis and (b) evaluate the results.

2)

**Cash Collections.** The following data are given for Erich From Stores:

	<b>September, Actual</b>	<b>October, Actual</b>	<b>November, Estimated</b>	<b>December, Estimated</b>
Cash sales	\$7,000	\$6,000	\$8,000	\$6,000
Credit sales	\$50,000	\$48,000	\$62,000	\$80,000
Total sales	\$57,000	\$54,000	\$70,000	\$86,000

Past experience indicates net collections normally occur in the following pattern: No collections are made in the month of sale, 80 percent of the sales of any month are collected in the following month, 19 percent of sales are collected in the second following month, and 1 percent of sales are uncollectible.

Compute (a) total cash receipts for November and December, and (b) accounts receivable balance at November 30 if the October 31 balance is \$50,000.

3)

**Cash Budget.** Some key figures from the budget of Moore Company for the first quarter of operations for 19X2 are shown below.

	<b>January</b>	<b>February</b>	<b>March</b>
Credit sales	\$80,000	\$70,000	\$86,000
Credit purchases	34,000	32,000	40,000
Cash disbursements			
Wages and salaries	4,000	3,500	4,200
Rent	1,500	1,500	1,500
Equipment purchases	25,000		2,000

The company estimates that 10 percent of its credit sales will never be collected. Of those that will be collected, 50 percent will be collected in the month of sale and the remainder will be collected in the following month. Purchases on account will all be paid for in the month following purchase. 19X2 December sales were \$90,000.

Using the preceding information, complete the following cash budget.

	<b>January</b>	<b>February</b>	<b>March</b>
Beginning cash balance	\$100,000	_____	_____
Cash receipts			
Cash collections from credit sales	_____	_____	_____
Total cash available	_____	_____	_____
Cash disbursements			
Purchases	_____	_____	_____
Wages and salaries	_____	_____	_____
Rent	_____	_____	_____
Equipment purchases	_____	_____	_____
Total disbursements	_____	_____	_____
Ending cash balance	=====	=====	=====

4)

**Selling and Administrative Expense Budget.** Foster Company has gathered the following information for the month of July, 19X1:

Sales: \$200,000

Sales commissions: 10% of sales

Advertising expenses: \$5,000 + 2% of sales

Miscellaneous selling expense: \$1,000 + 1% of sales

Office salaries: \$7,000

Office supplies: 0.5% of sales

Travel and entertainment: \$4,000

Miscellaneous administrative expense: \$1,750

Prepare a selling and administrative budget.

5)

**Budgeted Income Statement and Balance Sheet.** A budget is being prepared for the first and second quarters of 19X2 for Aggarwal Retail Stores, Inc. The balance sheet as of December 31, 19X1, is given below

*Aggarwal Retail Stores, Inc.*  
*Balance Sheet*  
*Dec. 31, 19X1*

<b>ASSETS</b>		<b>LIABILITIES AND EQUITIES</b>	
Cash	\$ 65,000	Accounts payable	\$ 83,000
Accounts receivable	52,000	Income tax payable	20,000
Merchandise inventory	<u>75,000</u>	Capital stock	70,000
Total assets	<u>\$192,000</u>	Retained earnings	<u>19,000</u>
		Total liabilities and equities	<u>\$192,000</u>

Actual and projected sales are:

19X1, 3d quarter (actual):	\$250,000
19X1, 4th quarter (actual):	\$300,000
19X2, 1st quarter (estimated):	\$200,000
19X2, 2d quarter (estimated):	\$230,000
19X2, 3d quarter (estimated):	\$220,000

Experience has shown that 60 percent of sales will be collected during the first quarter of sales and 35 percent of sales will be collected in the following quarter. Gross profit averages 30 percent of sales. There is a basic inventory of \$20,000. The policy is to purchase in each quarter the additional inventory needed for the following quarter's sales; payments are made in the quarter following the quarter of purchase. Selling and administrative expenses for each quarter are estimated at 4 percent of sales plus \$15,000 and are paid as incurred. Income tax is equal to 40 percent of taxable income. The income tax liability as of December 31, 19X1, is to be paid during the first quarter of 19X2.

Prepare (a) a budgeted income statement for the first and second quarter of 19X2 and (b) a