

## Module 6 Case Study

Near the end of 2013, the management of Simid Sports Co., a manufacturing company, prepared the following estimated balance sheet for December 31, 2013.

SIMID SPORTS COMPANY		
Estimated Balance Sheet		
December 31, 2013		
<b>Assets</b>		
Cash .....		\$ 18,000
Accounts receivable .....		262,500
Inventory .....		<u>75,000</u>
Total current assets .....		355,500
Equipment .....	\$270,000	
Less accumulated depreciation .....	<u>33,750</u>	<u>236,250</u>
Total assets .....		<u>\$591,750</u>
<b>Liabilities and Equity</b>		
Accounts payable .....	\$180,000	
Bank loan payable .....	7,500	
Taxes payable (due 3/15/2014) .....	<u>45,000</u>	
Total liabilities .....		\$232,500
Common stock .....	236,250	
Retained earnings .....	<u>123,000</u>	
Total stockholders' equity .....		<u>359,250</u>
Total liabilities and equity .....		<u>\$591,750</u>

To prepare a master budget for January, February, and March of 2014, management has gathered the following information:

- Simid Sports' single product is purchased for \$30 per unit and resold for \$55 per unit. The expected inventory level of 2,500 units on December 31, 2013, is more than management's desired level for 2014 which is 20% of the next month's expected sales (in units). Expected sales are:
  - January, 3,500 units;
  - February, 4,500 units;
  - March, 5,500 units; and
  - April, 5,000 units.

- Cash sales and credit sales represent 25% and 75%, respectively, of total sales. Of the credit sales, 60% is collected in the first month after the month of sale and 40% in the second month after the month of sale. For the December 31, 2013, accounts receivable balance, \$62,500 is collected in January and the remaining \$200,000 is collected in February.
- Merchandise purchases are paid for as follows: 20% in the first month after the month of purchase and 80% in the second month after purchase. For the December 31, 2013, accounts payable balance, \$40,000 is paid in January and the remaining \$140,000 is paid in February.
- Sales commissions equal to 20% of sales are paid each month. Sales salaries (excluding commissions) are \$30,000 per year.
- General and administrative salaries are \$72,000 per year. Maintenance expense equals \$1,000 per month and is paid in cash.
- Equipment reported in the December 31, 2013, balance sheet was purchased in January 2013. It is being depreciated over eight years using the straight-line method with no salvage value. The following amounts for new equipment purchases are planned in the coming quarter: January, \$18,000; February, \$48,000; and March, \$14,400. This equipment will be depreciated using the straight-line method over eight years with no salvage value. A full month's depreciation is taken for the month in which equipment is purchased.
- The company plans to acquire land at the end of March at a cost of \$75,000, which will be paid for with cash on the last day of the month.
- Simid Sports has a working arrangement with its bank to obtain additional loans as needed. The interest rate is 12% per year, and interest is paid at each month-end based on the beginning balance. Partial or full payments on these loans can be made on the last day of the month. The company has agreed to maintain a minimum ending cash balance of \$12,500 each month.
- The income tax rate for the company is 40%. Income taxes on the first quarter's income will not be paid until April 15.