HUMBER
THE BUSINESS SCHOOL

ACCT_3500 Winter 2023

HR MANAGERIAL ACCOUNTING

GROUP PROJECT

GRADE: 15% OF THE TOTAL GRADE

DUE DATE: April 04, 2023

PROJECT TOPIC - Preparing and Analyzing the Master Budget (using Excel)

The demand for college graduates with data analytics skills has exploded, while the tools and techniques are evolving and changing rapidly. This case illustrates how data analytics can be performed using various tools including Excel, Power BI, and Tableau. As you analyze this case, you will be learning how to use EXCEL to drill down into a company's sales and cost data to gain a deeper understanding of the company's sales and costs and how this information can be used for planning and decision-making.

Students, please note that the penalties for cheating (copying/plagiarism) are severe.

MASTER BUDGET FACTS AND FIGURES:

You have just been hired as a management trainee by Toronto-based **Modern Fashions Inc.**, a nationwide distributor of designer Caps. The company has exclusive distribution of the Caps, and sales have grown so rapidly over the last few years that it has become necessary to add new members to the management team. You have been given responsibility for all planning and budgeting. Your first assignment is to prepare a ***Master Budget for the next 12 months starting April 1, 2023***. You are anxious to make a favourable impression on the president and have assembled the information below.

The company purchases the Caps from a factory in Montreal which costs the company $5.00 each (all on account). Purchases are made based on the current month's sales in units plus an ending inventory to equal 40% of the next month's sales in units. Purchases are paid for 40% in the month of purchase and the remaining 60% in the following month.

The Caps are sold to retailers for $8.00 each (80% of total sales, all on account) and $15.00 each to the individual customers in the mall stores (20% of total sales, all in cash). Recent and forecasted sales in units are as follows:

Months	Units	Months	Units
January 2023 Actual	35,000	May 2023 Budgeted	36,000
February 2023 Actual	45,000	June 2023 Budgeted	50,000
March 2023 Actual	60,000	July 2023 Budgeted	60,000
April 2023 Budgeted	40,000		

The company is planning to open a new store in a shopping mall in July 2023 and expects to increase its sales by 10% every month from July to November 2023 and then decline by 10% during December and January 2023 and afterward the sales will be unchanged.

Opening the new store will cost the company $70,000 in advertising during July 2023. Furniture and Fixtures will cost $40,000 during July. The company is planning to buy sales equipment costing a total of $480,000 in May, payment in 4 instalments starting May and every 3 months thereafter. The rent for the new store will be $3,500 a month starting June 2023. A new Sales Manager will be hired at a monthly salary of $5,000 per month and she will start in June 2023. The additional costs of running the new store will be $4,000 per month when the store opens. To cover all the extra costs due to the new store, the owner decided to provide an interest-free loan of $30,000 to the company on June 1, 2023, with a condition that the company will repay the loan in full whenever there is sufficient cash balance available after the bank loan is repaid.

The company has found that only 60% of a month's sales are collected in the following month, and the remaining 40% is collected in the second month following the sales. Bad debts have been negligible.
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The company's *monthly* operating expenses are given below:

Variable cost:
Sales Commission (retail only) $1.00 per Cap sold

Fixed Costs:

Wages and Salaries	$90,000
Utilities	9,000
Insurance	7,200
Depreciation	3,000
Office rent	8,000
Miscellaneous expenses	5,000

All operating expenses are paid during the month in cash. The company pays a salary of $7,000 each month to the owner Peter Haul, payable on the 1st week of next month. The company's balance sheet on March 31, 2023, is given below:

ASSETS

Cash …………………………………………………	$ 20,000
Accounts Receivable ($115,200 from February sales; $384,000 from March Sales……	499,200
Inventory (16,000 units) ………………………………………………	80,000
Fixed Assets net of Depreciation …………………………………	172,700
Total Assets ……………………………………………………………	$ 771,900
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LIABILITIES AND SHAREHOLDER'S EQUITY

Accounts Payable ………………………………………………………	$ 228,000
Salaries Payable ……………………………………………………	7,000
Capital Stock …………………………………………………………	400,000
Retained Earnings …………………………………………………	136,900
Total Liabilities and Shareholders' Equity ………………………………..	$ 771,900
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The company has a policy to minimum ending cash balance of $20,000 at the end of each month. The company has an agreement with the Public Bank of Canada that allows the company to borrow in increments of $1,000 at the beginning of each month, up to a total line of credit balance of $100,000. The interest rate on these loans is 1% per month, and for simplicity, we will assume that interest is not compounded. Whenever possible, the company would pay the bank all of the accumulated interest on the loan and pay back as much of the loan as possible (in increments of $1,000), while still retaining at least $20,000 in cash balance. Interest on the loan is paid only at the time of repayment of the loan and on the outstanding amount.

***Required:* Prepare a master budget for the 12 months ending March 31, 2024. Include the following detailed budgets:**

1. **a.** A Sales Budget, by month and in total. **[10 Marks]**
   b. A Schedule of expected cash collections from sales, by month and in total. **[15 marks]**
   c. A Merchandise Purchases budget in units and dollars. Show the budget by month and in total. **[10 Marks]**
   d. A Schedule of Expected Cash Disbursements for merchandise purchases, by month and in total. **[10 Marks]**
2. A Cash Budget. Show the budget by month. **[30 Marks]**
3. A Budgeted Income Statement for the year ending March 31, 2024. **[10 Marks]**
4. A Budgeted Balance Sheet as of March 31, 2024. **[10 Marks]**
5. Because sales have increased after the opening of the new store, do you think that the company made a wise decision by opening the store. The owner could have invested the $30,000 interest-free Loan elsewhere earning an 8% interest annually. Explain your answer supported by numbers/calculations. **[5 Marks]**

Note: Please make sure that you round off all the sales in units and other amounts. Because of this round-off, your Budgeted Balance Sheet may have a difference of around $5 to $20 between Total Assets and Total Liabilities. You may ignore this difference or add to any account to balance.