

**PROBLEM SET C**

C1. Mathew T. Box, III, grandson of the founder and currently CEO of the M. T. Box Company, has been concerned about the firm's short-term financial management. The treasurer of M. T. Box, Mary Hoover, has gathered the following information and is asking you to create a cash budget, monthly pro forma income statements, and monthly pro forma balance sheets for the next 6 months for M. T. Box.

1. The payment pattern for revenues is estimated to be as follows: 20% of sales are for cash, 15% are paid for 1 month after the sale, 55% are paid for 2 months after the sale, 9% are paid for in 3 months, and 1% are uncollectible.
2. The cash account should be set to start each month in the amount of \$15,000 plus 65% of next month's salaries and wages plus 75% of this month's accounts payable. The cash account will be adjusted with the short-term investment (borrowing) account, and Mary Hoover believes M. T. Box can earn 9% APR on its short-term investments.
3. Purchases of raw materials each month are in the amount of 35% of the predicted sales for the month after next plus 25% of next month's predicted sales plus 8% of this month's sales. Purchases are paid for in the following month, and there are no discounts available from suppliers. The cost of raw materials averages 68% of sales.
4. The firm pays salaries and wages of \$15,000 plus 14% of this month's sales.
5. Fixed assets are being depreciated at the rate of 1% of net fixed assets per month.
6. The firm pays a cash dividend of \$2000 every month.
7. The long-term debt on the balance sheet carries a 15% APR, and payments are made quarterly in December, March, June, and September.
8. Taxes are at the rate of 35% of taxable income (including rebates for negative taxes). Taxes are paid monthly.
9. Mary Hoover is expecting the company to make a purchase of \$150,000 in fixed assets at the end of April.
10. Sales for October, November, and December of this year were \$60,000, \$90,000, and \$150,000, respectively. Sales forecasted for the next 8 months are (in thousands)

Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
250	235	190	160	110	90	135	260

**BALANCE SHEET AS OF DECEMBER 31**

Cash	\$170	Accounts payable	\$160
Short-term investments (borrowing)	90	Accrued interest	0
Accounts receivable	195	Long-term debt	600
Inventory	157	Common stock	120
Net fixed assets	615	Retained earnings	347
Total assets	<u>\$1227</u>	Liabilities + stockholders' equity	<u>\$1227</u>