

**ADDITIONAL PROBLEM FOR CHAPTER 15****15-16**  
Cash budgeting

Dorothy Koehl recently leased space in the Southside Mall and opened a new business, Koehl's Doll Shop. Business has been good, but Koehl has frequently run out of cash. This has necessitated late payment on certain orders, which, in turn, is beginning to cause a problem with suppliers. Koehl plans to borrow from the bank to have cash ready as needed, but first she needs a forecast of just how much she must borrow. Accordingly, she has asked you to prepare a cash budget for the critical period around Christmas, when needs will be especially high.

Sales are made on a cash basis only. Koehl's purchases must be paid for during the following month. Koehl pays herself a salary of \$4,800 per month, and the rent is \$2,000 per month. In addition, she must make a tax payment of \$12,000 in December. The current cash on hand (on December 1) is \$400, but Koehl has agreed to maintain an average bank balance of \$6,000 — this is her target cash balance. (Disregard till cash, which is insignificant because Koehl keeps only a small amount on hand in order to lessen the chances of robbery.)

The estimated sales and purchases for December, January, and February are shown below. Purchases during November amounted to \$140,000.

	SALES	PURCHASES
December	\$160,000	\$40,000
January	40,000	40,000
February	60,000	40,000

- Prepare a cash budget for December, January, and February.
- Now, suppose Koehl were to start selling on a credit basis on December 1, giving customers 30 days to pay. All customers accept these terms, and all other facts in the problem are unchanged. What would the company's loan requirements be at the end of December in this case? (Hint: The calculations required to answer this question are minimal.)