Ch4 Chapter Problems #1, #2 pg. 133

For Problem #1 you should create the cash budget for each of a,b,c, d. #1 does not have a worksheet, the results are given to you in the form of Collections and Payments.

#1 (a) should be one table showing what you have without the borrowing part.

(b) should be a new separate table with the borrowing part included.

(c) should show another table with borrowing and interest part added.

(d) should show a new table with borrowing, interest, PLUS paying back the short term borrowing when we have excess cash. Refer to Exh. 4-8 in the Ch4. Worksheet G31 cell to see how to formulate the paying back part.

For Problem #2

1) does the 2% discount get applied to the first month's payment right away and get reduced?

The 2% discount will be received if the company pays within the same month. Ex) $100 due -> pay $98 dollars instead if paid in the same month as the purchase month.

2) What about the 4% annual interest? How does that get reflected?

4% annual interest for short term borrowing so monthly it would be 4%/12 monthly. Take a look at Exh 4-8 tab in the ch.4 worksheet for reference. Row 23 has the formulas for short term borrowing interest.

3) Should we include all the other disbursements shown in the example like wages, lease payments, dividends, etc?

For #2 there are no other disbursements like wages.

4) For (b) total interest cost would be sum of all interest paid (cumulative interest) over June to October 2017