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The Reilly corporation is a manufacturer of children's toys. Its toys are sold throughout the year though the sales peak in the fourth quarter of the calendar year. The Ace division of the Reilly corporation manufactures one product, a card game. The results of operations of the first and second quarters of 2001 and selected balance sheet items for the Ace division are given below. All the fixed costs per period and unit costs have remained the same over the past ten quarters and are expected to be the same for the next few quarters.

The finished goods inventory includes direct costs (labor and material) and the variable overhead costs but not any fixed overhead costs. The division holds no materials inventory, as it buys raw materials just in time for production. All the materials purchases and labor expenses are paid in cash immediately. Half the fixed overhead costs are due to the depreciation expense for machines used in production. The rest of the fixed overhead and all the variable overhead costs are completely paid in cash as incurred. The variable overhead costs vary with the direct costs of production in the quarter. Note that the number of units produced need not equal the number of units sold. The Ace division keeps the level of the ending finished goods inventory equal to a fraction of the units to be sold in the next period.

The Ace division increased the selling price for the 2nd quarter of 2001 and is planning no further price changes. It collects a fraction of the sales in a given period in the same period and the rest of the sales is collected in the following period. There are no bad debts. This collection profile is expected to be the same for the next few periods. Selling costs vary with the number of units sold and are paid in cash as incurred. On December 31, 2000 the Ace division had \$2.34 million worth of finished goods inventory. The forecasted sales for the 3rd and 4th quarters of 2001 are \$17.5 million and \$22.5 million respectively. Income taxes are 40% of the pretax income and are usually paid in the following quarter.

In \$ thousands except per share data

The Ace Division		Quarter 2	Quarter 1
Income statement		2001	2001
Revenue		\$13,750	\$9,000
Costs	Direct costs	\$5,500	\$4,500
	Variable overhead	\$1,650	\$1,350
	Fixed overhead	\$500	\$500
Gross Margin		\$6,100	\$2,650
	Selling costs	\$2,100	\$1,900
Earnings before taxes		\$4,000	\$750
Income taxes	40.00%	\$1,600	\$300
Net income		\$2,400	\$450
Balance sheet items			
Finished goods inventory ending		\$3,640	\$2,860
Accounts Receivable, ending		\$4,125	\$2,700

Question

Prepare a projected income statement and a cash plan for the 3rd quarter of 2001. (Hint: Fixed selling costs and the variable selling costs can be computed from the sales in the past two quarters).