Jeff Miller owns Miller Auto Body Repair. During some months, he seems to have sufficient cash to meet all needs and maintain a comfortable cash reserve balance. During other months, he is frustrated because his operating cash supply is severely depleted. As a result, he is establishing a borrowing agreement with a local bank. His objective is to borrow (on the first day of the month) or repay (on the last day of the month) on the loan each month, in $2,500 increments. His planned borrowings/repayments will be based upon a cash budget, and tied to the assumption that the company will end each month with no less than $10,000 of available cash.

Evaluate the following facts relating to the period July 1 to September 30, and prepare a monthly cash budget. Whenever repayments are made on the loan, the repayment is to include all accrued interest from the time of the loan origination. Interest accrues at 1% per month. Miller Auto Body had $12,500 of cash on hand on July 1.

Sales for May and June were $250,000 and $300,000, respectively. Anticipated sales for July to September are as follows:

| | |
|---|---|
| July | $225,000 |
| August | 360,000 |
| September | 310,000 |

Because much of the repair work is done for insurance companies, the pattern of collection for all sales is typically delayed as follows: 20% in the month of sale, 60% in the next following month, and 15% in the second following month. The other 5% is not expected to be collected.

Total selling, general, and administrative costs consist of a monthly fixed component of $70,000, and variable costs that run 15% of sales. The fixed SG&A costs include noncash depreciation of $25,000; all other SG&A is fully funded in cash each month.

Repair parts are expected to equal 30% of sales, and are funded half in the month of sale and the other half in the next following month. Direct labor is expected to equal 20% of sales and is funded in the month incurred. Shop overhead is equal to 30% of direct labor. 40% of the total shop overhead is paid in cash within the month, and the other 60% relates to noncash depreciation.

Miller Auto Body is a sole proprietorship and does not pay income tax. However, the earnings must be included in Jeff's personal tax return. As a result, Miller Auto Body pays out $5,000 in cash each month to Jeff to cover his estimated tax obligation.

Jeff has been notified that he must install an environmental paint filter system. This $85,000 expenditure will be funded in August at the time of installation. Jeff also plans to sell a truck in September for $25,000, resulting in a loss of $3,000.