

CMA Exam Part 2 - Study Question 32 (Budgeting Sales Commissions based on Projected Sales)

Karmel, Inc pays out sales commission to its sales team in the month the company receives cash for payment. These commissions equal 5% of total (monthly) cash inflows as a result of sales. Karmel has budgeted sales of \$300,000 for August, \$400,000 for September, and \$200,000 for October. Approximately half of all sales are on credit, and the other half are all cash sales. Experience indicates that 70% of the budgeted credit sales will be collected in the month following the sale, 20% the month after that, and 10% of the sales will be uncollectible. Based on this information, what should be the total amount of sales commissions paid out by Karmel in the month of October?

Month	Projected Sales	% Collectible	Cash	Credit	Commission	Subtotal
August	\$300,000	20%	0%	50%	5%	\$1,500
September	\$400,000	70%	0%	50%	5%	\$7,000
October	\$200,000	100%	50%	0%	5%	<u>\$5,000</u>
					0.05	<u>\$13,500</u>