

AC202 Chapter 8: Profit Planning

EXERCISE 8-10 Sales and Production Budgets [LO2, LO3]

The marketing department of Graber Corporation has submitted the following sales forecast for the upcoming fiscal year.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Budgeted unit sales	16,000	15,000	14,000	15,000

The selling price of the company's product is \$22.00 per unit. Management expects to collect 75% of sales in the quarter in which the sales are made, 20% in the following quarter, and 5% of sales are expected to be uncollectible. The beginning balance of accounts receivable, all of which is expected to be collected in the first quarter, is \$66,000.

The company expects to start the first quarter with 3,200 units in finished goods inventory. Management desires an ending finished goods inventory in each quarter equal to 20% of the next quarter's budgeted sales. The desired ending finished goods inventory for the fourth quarter is 3,400 units.

Required:

1. Prepare the company's sales budget and schedule of expected cash collections.
2. Prepare the company's production budget for the upcoming fiscal year.

EXERCISE 8-11 Direct Materials and Direct Labor Budgets [LO4, LO5]

The production department of Priston Company has submitted the following forecast of units to be produced by quarter for the upcoming fiscal year.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Units to be produced	6,000	7,000	8,000	5,000

In addition, the beginning raw materials inventory for the 1st Quarter is budgeted to be 3,600 pounds and the beginning accounts payable for the 1st Quarter is budgeted to be \$11,775.

Each unit requires three pounds of raw material that costs \$2.50 per pound. Management desires to end each quarter with a raw materials inventory equal to 20% of the following quarter's production needs. The desired ending inventory for the 4th Quarter is 3,700 pounds. Management plans to pay for 70% of raw material purchases in the quarter acquired and 30% in the following quarter. Each unit requires 0.50 direct labor-hours and direct labor-hour workers are paid \$12 per hour.

Required:

1. Prepare the company's direct materials budget and schedule of expected cash disbursements for purchases of materials for the upcoming fiscal year.
2. Prepare the company's direct labor budget for the upcoming fiscal year, assuming that the direct labor workforce is adjusted each quarter to match the number of hours required to produce the forecasted number of units produced.