

UNIT 6 - CASE #3

Background

You are a Consultant for the professional service firm, BUSI 2083 LLP. Your firm specializes in providing a wide variety of internal business solutions for different clients. One of the partners in your practice would like to give back to the community through helping a non-for-profit company, Guardian Angel, prepare a master budget without charging them service fees. She asks you to take the lead on this engagement with the hope that a successful outcome may lead to your promotion to Senior Consultant. You take the background files from the partner and get started.

Guardian Angel is a non-for-profit organization that helps give street youth a second chance by providing them with business clothing and teaching them work related skills. The company is getting ready for a fundraiser by selling crystal angle wing key chains. The information below about Guardian Angel's operations has been assembled to assist budget preparation. The company is preparing its master budget for the first quarter of 2014. The budget will detail each month's activity and the activity for the quarter in total. The master budget will be based on the following information:

Additional Information

- a. Selling price is \$60 per unit in 2013 and will not change for the first two quarters of 2014. Actual and estimated sales are as follows:

Actual 2013	Estimated 2014
November: 10,000 units	January: 11,000 units
December: 12,000 units	February: 10,000 units
	March: 13,000 units
	April: 11,000 units
	May: 10,000 units

- b. The company produces enough units each month to meet that month's sales plus a desired inventory level equal to 20% of next month's estimated sales. Finished Goods inventory at the end of 2011 consisted of 2,200 units at a variable cost of \$33 each.
- c. The company purchases enough raw materials each month for the current month's production requirement and 25% of next month's production requirements. Each unit of product requires 5 kilograms of raw material at \$0.60 per kilogram. There were 13,500 kilograms of raw materials in inventory at the end of 2013. Guardian Angel pays 40% of raw material purchases in the month of purchase and pays the remaining 60% in the following month.
- d. Each unit of finished product requires 1.25 labor-hours. The average wage rate is \$16 per hour.
- e. Variable manufacturing overhead is 50% of the direct labor cost.
- f. Credit sales are 60% of total sales. The company collects 50% of the credit sales during the first month following the month of sale and 50% during the second month.
- g. Fixed overhead cost (per month):

Factory supervisor's salary	\$75,000
Factory insurance	1,400

Factory rent	8,000
Depreciation of factory equipment	1,200

h. Total fixed selling and administrative expenses are as follows:

Advertising	\$300
Depreciation	9,000
Insurance	250
Salaries	4,000
Other	14,550

i. Variable selling and administrative expenses consist of \$4 for shipping and sales commissions of 10% of sales.

j. The company is going to acquire assets for use in the sales office at a cost of \$300,000, which will be paid at the end of January 2014. The monthly depreciation expense on the additional capital assets will be \$6,000.

k. The balance sheet as of December 31, 2013, is as follows:

Assets		
Cash		\$80,000
Accounts receivable		612,000
Inventory: raw materials	\$8,100	
Finished goods	72,600	80,700
Plant and equipment	1,000,000	
Less: accumulated depreciation	(100,000)	900,000
Total Assets		\$1,672,700
Liabilities and Equity		
Accounts payable		\$24,000
6% long term notes payable		900,000
Common shares		735,000
Retained earnings		13,700
Total liabilities and equity		\$1,672,700

Additional information:

- All cash payments except purchases of raw materials are made monthly as incurred.
- All loan repayments and borrowings, when appropriate, occur at the end of each month.
- All interest on borrowed funds is paid at the end of each month at the rate of 6% per year.
- Loan repayments and borrowings, when appropriate, may be made in any amount.
- A minimum cash balance of \$30,000 is required at the end of each month.

Having a better grasp of the client and information required in order to prepare a master budget, you get to work on solving the client's needs:

Required:

1. Prepare the following budgets for the first three months of 2014:

- a. Sales budget
- b. Production budget
- c. Raw materials purchases budget
- d. Direct labor and manufacturing overhead budget.
- e. Selling and administrative budget
- f. Budgeted income statement (using variable costing). Ignore income taxes.
- g. Cash budget