**AC556**

**Week 3 Problem**

**Production Budgets**

**Note:** It is expected that this problem will be complete using an Excel spreadsheet using formulas.

The Hale Company finished their sales projections for the coming year. The company produces one product. Part of next year’s sales projections are as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | July | August | September | October | November |
| Projected Sales in units | 100,000 | 125,000 | 156,000 | 165,000 | 185,000 |

The budget committee has also compiled the following information on inventories:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Raw materials | Work-in-Process | Finished Goods |
| Ending Balance, June | 22,000 lbs | None | 13,000 units |
| Desired ending levels (monthly) | 5% of next month’s production needs | None | 12% of next month’s sales |

Engineering has developed the following standards upon which the production budgets will be developed:

|  |  |
| --- | --- |
| Item | Standard |
| Materials usage | 5 lbs per unit |
| Material price per pound | $1.50 per pound |
| Labor usage | 0.4 hours per unit |
| Labor rate | $30 per hour |
| Machine hours | 3 machine hours per unit |

The Hale Company uses a modified allocation method for allocating overhead costs. The rates that will be used in the coming year are as follows:

|  |  |
| --- | --- |
| Overhead item | Allocation rate |
| Utilities | $0.50 per machine hour |
| Inspection | $10 per unit produced |
| Factory supplies | $2 per unit produced |
| Depreciation | $35,000 per month |
| Supervision | $12,000 per month |

**Required:**

Prepare the following production budgets for July, August, and September for the Hale Company:

1. Production budget
2. Materials purchase budget

3. Direct labor budget

4. Overhead budget

For the quarter (quarter totals only), prepare the:

5. Cost of goods manufactured budget