Johnson company is a manufacturing company. Its balance sheet for the year ending December 31, 2010, is presented below.

**Johnson company.**

**Balance Sheet**

**Year Ending December 31st, 2010**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Cash | $20,000 |  | Accounts Payable | $ 6,800 |
| Short-term Investments | 4,000 |  | Long-term Debt | 80,000 |
| Accounts Receivable | 50,000 |  | Total Liabilities | $86,800 |
| Raw Materials Inventory | 7,200 |  | Common Stock - $10 par | $75,000 |
| \*Finished Goods Inven. | 20,600 |  | Additional Paid-in Capital | 15,000 |
| Equipment | 120,000 |  | Retained Earnings | 33,000 |
| Accumulated Depreciation | (12,000) |  | Total Shareholders’ Equity | 123,000 |
| Total Assets | $209,800 |  | Total Liabilities & SE | $209,800 |

\*Note: Finished Goods Inventory consists of 800 bowling balls at an average cost of $25.75 per unit.

The master budget needs to include the following components, and should be presented in a professional format using either an Excel spreadsheet or a Word document:

1. Sales budget
2. Production budget
3. Direct materials purchase budget
4. Sales budget
5. Manufacturing overhead budget
6. Selling and administrative expenses budget
7. Ending finished goods inventory/Cost of goods sold
8. Cash budget
9. Pro forma income statement for the year ending December 31, 2011
10. Pro forma balance sheet as of December 31, 2011

**Sales Volume**: sales are anticipated as follows.

2011:

Quarter 1: 3,600 units

Quarter 2: 3,800 units

Quarter 3: 4,400 units

Quarter 4: 4,000 units

2012:

Quarter 1: 4,200 units

Quarter 2: 3,800 units

The average selling price is $40 per unit. Cash collections are as follows: 70% is collected in period sold, and the remaining 30% is collected in the following quarter. The December 2010 accounts receivable is expected to be collected in full the first quarter of 2011.

**Production**: The company has adopted the policy that the desired finished goods ending inventory for any quarter should be equal to 40% of the next quarter’s budgeted sales volume.

**Raw** **Materials**: The company has adopted the policy that the desired ending inventory for raw materials should be equal to 25% of the next quarter’s production needs. It takes 4-lbs. of the raw material to make one completed bowling pin. The expected cost per pound for raw materials is $2.50. The company’s disbursement policy for payment of raw materials: 80% is paid for in the quarter purchased, and the remaining 20% is paid in the following quarter. The December 2010 accounts payable is expected to be paid in full the first quarter of 2011.

**Direct Labor**: It takes one-quarter hour of direct labor (15-minutes) to complete one unit. The average hourly wage is $15. The company pays all direct labor costs in the quarter incurred.

**Manufacturing Overhead**: The following is a breakdown of the variable and fixed overhead expected costs. The company pays for all manufacturing overhead in the quarter incurred. Ten Pin uses a predetermined overhead rate based on the number of direct labor hours expected to be incurred.

Variable (per DLH):

* Indirect Materials: $2.50
* Indirect Labor: $2.30
* Utilities: $1.90
* Maintenance: $1.30

Fixed (annual basis):

* Supervisor salary: $62,000
* Depreciation: $72,000
* Property taxes and insurance: $19,800
* Maintenance: $13,000

Total Unit Cost:

* Raw materials ($2.5 x 4) $ 10.00
* Direct Labor ($15 x .25) 3.75
* Variable OH ($8 x .25 DLH) 2.00
* Fixed OH 10.00
* Total Unit Cost $25.75

**Selling and Administrative expenses**: the following is a breakdown of the variable and fixed selling and administrative expected costs. The company pays all selling and administrative costs in the quarter incurred.

Variable (per unit basis):

* Commission: $1.00
* Freight-out: $.50

Fixed (annual basis):

* Advertising: $4,000
* Sales Salaries: $25,000
* Office Salaries: $14,000
* Depreciation: $10,000
* Insurance: $3,000

**Other additional information**:

* The company expects to purchase new equipment costing $100,000 cash in the second quarter of 2011 (depreciation has been accounted in the above facts).
* Short-term investments are expected to be sold for $10,000 cash in the first quarter. There will be a gain on the sale (selling price less cost basis).
* The company makes equal quarterly payments ($10,000/quarter) for its estimated annual income taxes which are expected to total $40,000 for 2011.
* The company has adopted the policy of a $20,000 minimum cash balance. If it needs to borrow, a revolving line of credit is available up to $100,000. The company can borrow and repay in increments of $1,000 only. The interest is due in the following quarter on any borrowings outstanding at the rate of 6% per quarter.
* The company repaid $20,000 worth of its long-term debt in the first quarter. For simplicity assume there is a quarterly interest expense of $2,000 on this debt ($8,000 for the year).
* The company paid dividends to shareholders totaling $30,000 in the fourth quarter.