



UNIVERSITÀ  
DEGLI STUDI  
DI BERGAMO

Dipartimento  
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# Budgeting

## Excercise 1

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Morganton Company makes one product and it provided the following information to help prepare the master budget:

- a. The budgeted selling price per unit is \$70. Budgeted unit sales for June, July, August, and September are 8,400, 10,000, 12,000, and 13,000 units, respectively. All sales are on credit.
- b. Forty percent of credit sales are collected in the month of the sale and 60% in the following month.
- c. The ending finished goods inventory equals 20% of the following month's unit sales.
- d. The ending raw materials inventory equals 10% of the following month's raw materials production needs. Each unit of finished goods requires 5 pounds of raw materials. The raw materials cost \$2.00 per pound.
- e. Thirty percent of raw materials purchases are paid for in the month of purchase and 70% in the following month.
- f. The direct labor wage rate is \$15 per hour. Each unit of finished goods requires two direct labor-hours.
- g. The variable selling and administrative expense per unit sold is \$1.80. The fixed selling and administrative expense per month is \$60,000.



## Requirements

1. What are the budgeted sales for July?
2. What are the expected cash collections for July?
3. What is the accounts receivable balance at the end of July?
4. According to the production budget, how many units should be produced in July?
5. If 61,000 pounds of raw materials are needed to meet production in August, how many pounds of raw materials should be purchased in July?
6. What is the estimated cost of raw materials purchases for July?
7. In July what are the total estimated cash disbursements for raw materials purchases? Assume the cost of raw material purchases in June is \$88,880.
8. What is the estimated accounts payable balance at the end of July?
9. What is the estimated raw materials inventory balance at the end of July?
10. What is the total estimated direct labor cost for July?

Accounts receivable = amount of goods sold which have not been paid (no cash-in)



## Requirements

11. If we assume that there is no fixed manufacturing overhead and the variable manufacturing overhead is \$10 per direct labor-hour, what is the estimated unit product cost?
12. What is the estimated finished goods inventory balance at the end of July?
13. What is the estimated cost of goods sold and gross margin for July?
14. What is the estimated total selling and administrative expense for July?

Cost of goods sold = total product  
cost of goods sold (only product not  
selling and admin)

Gross margin = revenues - cost of  
goods sold

