

The management of Zigby Manufacturing prepared the following estimated balance sheet for March, 2015:

ZIGBY MANUFACTURING			
Estimated Balance Sheet			
March 31, 2015			
Assets		Liabilities and Equity	
Cash	\$ 40,000	Accounts payable	\$ 200,500
Accounts receivable	342,248	Short-term notes payable	12,000
Raw materials inventory	98,500	Total current liabilities	212,500
Finished goods inventory	325,540	Long-term note payable	500,000
Total current assets	806,288	Total liabilities	712,500
Equipment, gross.	600,000	Common stock	335,000
Accumulated depreciation	(150,000)	Retained earnings	208,788
Equipment, net	450,000	Total stockholders' equity	543,788
Total assets	<u>\$1,256,288</u>	Total liabilities and equity	<u>\$1,256,288</u>

To prepare a master budget for April, May, and June of 2015, management gathers the following information:

- Sales for March total 20,500 units. Forecasted sales in units are as follows: April, 20,500; May, 19,500; June, 20,000; and July, 20,500. Sales of 240,000 units are forecasted for the entire year. The product's selling price is \$23.85 per unit and its total product cost is \$19.85 per unit.
- Company policy calls for a given month's ending raw materials inventory to equal 50% of the next month's materials requirements. The March 31 raw materials inventory is 4,925 units, which complies with the policy. The expected June 30 ending raw materials inventory is 4,000 units. Raw materials cost \$20 per unit. Each finished unit requires 0.50 units of raw materials.
- Company policy calls for a given month's ending finished goods inventory to equal 80% of the next month's expected unit sales. The March 31 finished goods inventory is 16,400 units, which complies with the policy.
- Each finished unit requires 0.50 hours of direct labor at a rate of \$15 per hour.
- Overhead is allocated based on direct labor hours. The predetermined variable overhead rate is \$2.70 per direct labor hour. Depreciation of \$20,000 per month is treated as fixed factory overhead.
- Sales representatives' commissions are 8% of sales and are paid in the month of the sales. The sales manager's monthly salary is \$3,000.
- Monthly general and administrative expenses include \$12,000 administrative salaries and 0.9% monthly interest on the long-term note payable.
- The company expects 30% of sales to be for cash and the remaining 70% on credit. Receivables are collected in full in the month following the sale (none is collected in the month of the sale).

- i. All raw materials purchases are on credit, and no payables arise from any other transactions. One month's raw materials purchases are fully paid in the next month.
- j. The minimum ending cash balance for all months is \$40,000. If necessary, the company borrows enough cash using a short-term note to reach the minimum. Short-term notes require an interest payment of 1% at each month-end (before any repayment). If the ending cash balance exceeds the minimum, the excess will be applied to repaying the short-term notes payable balance.
- k. Dividends of \$10,000 are to be declared and paid in May.
- l. No cash payments for income taxes are to be made during the second calendar quarter. Income tax will be assessed at 35% in the quarter and paid in the third calendar quarter.
- m. Equipment purchases of \$130,000 are budgeted for the last day of June.

Required

Prepare the following budgets and other financial information as required. All budgets and other financial information should be prepared for the second calendar quarter, except as otherwise noted below. Round calculations up to the nearest whole dollar, except for the amount of cash sales, which should be rounded down to the nearest whole dollar.

1. Sales budget.
2. Production budget.
3. Raw materials budget.
4. Direct labor budget.
5. Factory overhead budget.
6. Selling expense budget.
7. General and administrative expense budget.
8. Cash budget.
9. Budgeted income statement for the entire second quarter (not for each month separately).
10. Budgeted balance sheet as of the end of the second calendar quarter.

Check (2) Units to April, 19,700; May, 19,700
 (3) Cost of materials purchases, \$198,000
 (5) Total over cost, May, \$46,865
 (8) Ending balance: April, \$83,312; May, \$124,295
 (10) Budgeted assets, June 30: \$1,000,000