

Budgets – C – Production

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Budgets – C - Production

- The first line comes from the Sales Budget.
- When you know your expected sales, you can develop a schedule for production.
- The formula $A + B = C - D = E$ comes into play both in the basic and expended forms.

| Miramar Merchandising Services, Inc. | | | | |
|--|----------------|-----------------|--------------|----------------|
| Production Budget | | | | |
| For the Quarter ending March 31, 2015 | | | | |
| | January | February | March | Quarter |
| Sales in cases: (quantity) | 4,000 | 4,150 | 4,025 | 12,175 |
| Plus: Desired ending inventory | 623 | 604 | 619 | 619 |
| Total cases needed: | 4,623 | 4,754 | 4,644 | 12,794 |
| Less: Beginning inventory: | 600 | 623 | 604 | 600 |
| Number of cases to be produced: | 4,023 | 4,131 | 4,040 | 12,194 |

Budgets – C - Production

- Because we want to keep production running we can expect to have a beginning balance on January 1 and an ending balance on January 31.
- The instructions are to plan for 15% of the next month's production as an ending balance.

| | | |
|--------------------------------|-------|----------------------------|
| Desired ending inventory is | 15% | of the next month's sales. |
| April sales are expected to be | 4,125 | cases. |

Budgets – C - Production

- This means that you can compute the beginning balance as 15% of this month's production.
- Follow the stated rounding instructions, I have left these to Microsoft Excel's default.

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Budgets – C - Production

- Since January's production is 4,000 cases, the beginning balance is $(4,000 \text{ cases} \times 15\%)$ 600.
- The ending balance for January is $(4,150 \text{ cases from February} \times 15\%)$ 623.

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| Total cases needed: | 4,623 | 4,754 | 4,644 | 12,794 |
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Budgets – C - Production

- Utilizing the $A + B = C - D = E$ formula, it is:
 - A Beginning balance of 4,000 cases,
 - B + Desired ending inventory of 623 cases,
 - C = Total cases needed of 4,323,
 - D - Beginning inventory of 600 cases,
 - E = Production required of 4,023 cases.

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Budgets – C - Production

- This same process of $A + B = C - D = E$ works on February. This time you can transfer / copy the ending balance of January to the beginning balance of February.
- Now it is $4,150 + 604 = 4,754 - 623 = 4,131$ cases.

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| Total cases needed: | 4,623 | 4,754 | 4,644 | 12,994 |
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Budgets – C - Production

- It gets repetitive, $A + B = C - D = E$ works on March.
- April sales are 4,125 so March ending balance is $(4,125 \times 15\%)$ 619 cases (rounded).
- Now March is $4,025 + 619 = 4,644 - 604 = 4,040$ cases.

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Budgets – C - Production

- The key to the quarter values is the label of the lines.
- Sales in Cases, Total Cases Needed, and Number of Cases to be Produced are all line totals.
- Ending Inventory is for March **ONLY**.
- Beginning Inventory is from January **ONLY**.

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Budgets – C - Production

- Solved with the common $A + B = C - D = E$ formula.

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Budgets – C - Production

- We now know the production requirements, now we need to figure out the direct materials requirements.

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Budgets – C - Production

- The next recommended presentation is Budgets – D for Direct Materials.

Budgets – C - Production

The end.