

# BUDGETING ASSIGNMENT

## BUDGETING– CASE

After years of simply pressing the same button day in and day out you have recently been promoted to full cost accountant for Fidget Widgets (FW), a wholesaler of fidget devices operating across Canada. Management is considering expanding to take advantage of high growth in the market but in order to do so they will need to obtain a loan from the bank. The bank requires any company to submit a business plan for the upcoming year in order to support any loan request. As part of this plan, you have been asked to prepare a budget for the upcoming year. You begin this task by meeting with the marketing team to help them to prepare a sales forecast for boxes of the two main types of widgets they sell: Spinners and Cubes.

The monthly forecast (13 months) for each type of widget is as follows:

Widget Types	Sales (Boxes)												
	Jul 2020	Aug	Sept	Oct	Nov	Dec	Jan 2021	Feb	Mar	Apr	May	Jun	Jul 2021
Spinners	900	1,000	950	750	1,050	3,000	3,300	3,400	3,000	1,000	1,000	800	900
Cubes	800	900	1,100	1,350	2,000	3,100	2,500	2,400	2,100	1,700	1,600	1,350	1,100

FW has a very strong distribution network so maintains an inventory of only 8% of next month's cost of goods sold. The actual units of inventory projected to be on hand on July 1, 2020 are:

	Boxes on Hand
Spinners	750
Cubes	550

The current selling prices of the widgets are **\$250** for a box of Spinners and **\$300** per box of cubes. However, with so many new entrants into the market, FW has decided to stimulate sales in time for the holidays by decreasing these prices by 10% from November 1, 2020 to January 31, 2021 for both kinds of widgets. The resulting impact in units sold during these months is already reflected in the forecast above. You are also provided with the following cost information:

	Cost per Box
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Spinners	\$170
Cubes	\$200

To gain insights into the monthly operating expenses, you next meet with the controller and compile the following cost schedule:

Commissions	2%	Of sales if monthly sales are less than \$350,000
Commissions	7%	Of sales if monthly sales are greater or equal to \$350,000
Commissions	10%	Of sales if monthly sales are greater or equal to \$550,000
Shipping	4%	of sales per month
Rent	\$ 1,500	July to December, 2020
Rent	\$ 3,200	per month beginning in January, 2021
Advertising Expense	\$ 1,300	per month except January and February
Advertising Expense	\$ 3,500	January and February only
Salaries Expense	\$ 8,000	per month
Utilities Expense	\$ 1,100	per month
Insurance Expense	\$ 250	per month
Depreciation expense		per month (you will need to calculate)
Mortgage Interest Expense		per month (you will need to calculate)

In addition to these ongoing operating expenses, to accommodate the expansion, Fidget Widgets is also going to need to purchase the factory next door. This building will cost \$400,000. To purchase this, Performance Plus plans to borrow a first mortgage in the amount of \$350,000 with an expected APR of 8% and will pay off this mortgage monthly over 10 years. You will need to complete the mortgage repayment schedule to calculate the monthly interest costs.

The factory is expected to have a residual value of \$50,000 and useful life of 40 years. You will also need to calculate the depreciation expense for this factory, using the straight-line depreciation method. Assume the purchase of this factory will be made on July 1, 2020, and that loan payments will be made at the end of each month starting July 31, 2020.

**“Plan B”** budget to show the following assumption changes:

- Remove the decrease in sales price November to January. In other words, keep the sale price constant for both kinds of widgets every month
- Decrease sales in units by 8% November to January to reflect that volume may decrease if the sales price is not dropped in those months.

- Increase sales in units by 8% April to December. Mr. Spacely feels that an effort can be made to increase sales over the rest of the year to make up for the drop in the first 3 months.
- One such effort is to increase advertising. Increase advertising expense by \$2,500 for every month of the year.