

MINI-CASE

PHIONIA'S FINICKY FELINE GOURMET CAT DINNERS

Phionia Phelps has developed a gourmet cat food. Not only is this food eagerly eaten by the most finicky felines, but it is specially formulated to prevent the many health problems of aging cats. Phionia has been making the food on her kitchen range and selling it at \$250 per case only to close acquaintances who are also cat lovers. One of her wealthy acquaintances has now offered to invest in her business if Phionia will begin selling the product through her Web site. However, the investor wants Phionia to produce a budget for the first six months of operation.

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Based on her experience to date, Phionia predicts the following sales in cases:

Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
4,300	4,600	5,000	5,500	6,100	6,800	7,000	7,200	7,400	7,500

Each case of Finicky Feline Gourmet Cat Dinner requires 5 pounds of prime lamb meat, 10 pounds of short grain Chinese rice, 2 pounds of wild caught Alaskan salmon, and 1 pound of secret vitamins and supplements. Phionia plans to maintain end-of-month inventories equal to 10 percent of the next month's projected sales, to meet expected sales growth. All the ingredients inventories are to be maintained at 5 percent of the production needs for the next month, but not to exceed 1,000 pounds of any one ingredient. January will begin with all inventories at the projected levels.

Phionia has the following price quotes good for the following year:

Item	\$ per pound
Lamb	\$15.00
Rice	1.20
Salmon	24.00
Vitamins	45.00

The production process requires direct labor at two skill levels: (1) ingredient preparation, \$18 per hour, and (2) cooking and canning, \$24 per hour. Two workers are willing to work part days if there is not enough demand for them to work full time. It takes one hour to process one batch. Because of preparation and cleanup time, only six batches can be produced per day. Each batch produces enough food to fill 100 cases. Manufacturing overhead is \$6,000 fixed per month plus \$15 per case.

CASE DISCUSSION QUESTIONS

- Prepare the following budgets for the period, January through June:
 - Sales budget in dollars.
 - Production budget in units.
 - Direct materials purchases budget in pounds.
 - Direct materials purchases budget in dollars.
 - Direct manufacturing labor budget in dollars.
- Comment on the viability of this business and the advisability of the investor making a \$50,000 investment to get it started.