Valley Co.

Valley Co. purchases premium quality Honey Crisp Apples from local farmers and processes the apples into 1 litre bottles of cider that it sells to specialty food stores in the Maritimes, Quebec and Ontario. The company is the process of preparing its 2016 master budget and has presented you with the following information:

1.

Valley Co.
BALANCE SHEET
December 31, 2015

ASSETS			**LIABILITIES & SHAREHOLDERS' EQUITY**		
			Liabilites		
Cash		$ 2,850	Accounts payable-apples		$ 5,760
Accounts receivable		41,600	Accounts payable-bottles		480
Raw material, apples (1,296 kgs)		1,944	Dividends payable		23,000
Raw material, bottles (1,620 units)		162	Note payable		15,000
Finished goods (1,600 litres)		3,520	***Total liabilities***		44,240
Prepaid insurance		400	***Shareholder's equity***		
Plant & equipment	$ 140,000		Common stock	39,000	
Accumulated depreciation	(36,000)	104,000	Retained earnings	71,236	110,236
Total Assets		$ 154,476	**Total Liabilities & Shareholders' Equity**		$ 154,476

2. The Accounts Receivable at December 31, 2015 represents the remaining balances of November and December credit sales. Sales were $64,000 and $96,000 respectively in those two months.

3. Estimated sales in litres of Apple cider for January through May 2016 are shown below.

January	16,000
February	18,200
March	22,400
April	23,000
May	25,000

The budgeted selling price for a litre of apple cider is $4.40 in January and February and increases to $5.00 a litre in March.

4. The collection pattern for accounts receivable is as follows: 60% in the month of sale; 35% in the first month after sale; 5% in the second month after sale.

5. Each litre of cider has the following standard quantities and costs for direct materials and direct labour:

.8 kgs of apple @ $1.50/kg	$ 1.20
1 litre plastic bottle	.10
1 minute of direct labour @ $18//hour	$ .30

6. Variable overhead is applied to the product on the basis of machine hours. It takes 3 minutes of machine time to process 1 litre of cider. The variable overhead rate is $9 per machine hour. Total annual fixed overhead is $86,000 and is incurred evenly throughout the year. Fixed overhead per year is composed of the following costs:

Salaries	$40,000
Property taxes, general maintenance & other cash costs	38,800
Insurance – building	1,200
Depreciation – machinery & building	6,000

   The company has 4 months of prepaid building insurance as at December 31, 2015. A 12-month policy costing $1,320 will be purchased and paid for on April 30, 2016. Salaries and Property taxes, general maintenance & other cash costs are paid for as incurred. Fixed costs are assumed to be incurred evenly throughout the year.

7. There is no beginning Work in Process. All Work in Process is completed in the period in which it is started

8. Accounts payable are paid 80% in the month of purchase and 20% in the month after purchase.

9. The dividend payable will be paid February 15, 2016.

10. A new apple press costing $80,000 will be purchased on March 28, 2016. Payment will be made 50% in March 2016 and the remainder in July 2016. The new press will be brought into operation starting in April 2016.

11. The Note Payable is due to be repaid in full on September 30, 2016. The loan has a 6% interest rate. Interest is paid at the end of each month.

12. Valley Co. wants to maintain a minimum cash balance of $2,000 at all times. Management has negotiated an operating line of credit with its bank for a maximum amount of $60,000. The line of credit bears an interest rate of 8% per annum. Borrowings are made at the end of the month in which there is a cash shortage and all repayments are made at the end of the month when excess cash is available. Interest is paid monthly, at the end of the month, on the line of credit balance outstanding for that month.

13. The company would like to have an ending Finished Goods inventory equal to 10% of the next month's Sales and ending Raw Materials inventory equal to 10% of the next month's production needs.

14. Fixed selling and administrative costs per month are $10,000. In addition, the company pays its salespeople a commission of $.03 for each bottle of cider sold. All selling and administration costs are paid for in cash as incurred.

Required:

Prepare a Master Budget for Valley Co. **using spreadsheet software,** for the three months ending March 31, 2016. The cash budget **must** be monthly. Only a period end Balance Sheet and Income Statement are required. You should round all numbers in your Cash Budget, Cost of Goods Sold statement, Income Statement and Balance Sheet to the nearest whole dollar.

1. At least the following component budgets must be included and a ***hard copy*** submitted:
   a. Sales budget
   b. Production budget
   c. Direct materials purchases budget
   d. Direct labour budget
   e. Manufacturing overhead budget
   f. Cost of goods sold budget
   g. Selling and administrative expenses budget
   h. Cash budget
   i. Budgeted Income Statement
   j. Budgeted Balance Sheet
2. The hardcopy of the master budget is due in class on Monday, April 4, 2016.
3. In addition to the hardcopy of the master budget, you are required to submit an electronic version of your master budget (make sure you put group member names on it) to me via the mail function in the D2L. The electronic version of the master budget is due by 4:00pm on April 4, 2016.
4. This is a group project.