PROBLEM 9–19 Integration of Sales, Production, and Direct Materials Budgets [LO 9–2, LO 9–3, LO 9–4]

Crydon, Inc., manufactures an advanced swim fin for scuba divers. Management is now prepari detailed budgets for the third quarter, July through September, and has assembled the followi information to assist in preparing the budget:

a. The Marketing Department has estimated sales as follows for the remainder of the ye (in pairs of swim fins):

The selling price of the swim fins is $50 per pair.

July	6,000	October	4,000
August	7,000	November	3,000
September	5,000	December	3,000

b. All sales are on account. Based on past experience, sales are expected to be collected in the following pattern:

40% in the month of sale
50% in the month following sale
10% uncollectible

The beginning accounts receivable balance (excluding uncollectible amounts) on July 1 will be $130,000.

c. The company maintains finished goods inventories equal to 10% of the following month's sales. The inventory of finished goods on July 1 will be 600 pairs.

d. Each pair of swim fins requires 2 pounds of geico compound. To prevent shortages, the company would like the inventory of geico compound on hand at the end of each month to be equal to 20% of the following month's production needs. The inventory of geico compound on hand on July 1 will be 2,440 pounds.

e. Geico compound costs $2.50 per pound. Crydon pays for 60% of its purchases in the month of purchase; the remainder is paid for in the following month. The accounts payable balance for geico compound purchases will be $11,400 on July 1.

Required:

1. Prepare a sales budget, by month and in total, for the third quarter. (Show your budget in both pairs of swim fins and dollars.) Also prepare a schedule of expected cash collections, by month and in total, for the third quarter.
2. Prepare a production budget for each of the months July through October.
3. Prepare a direct materials budget for geico compound, by month and in total, for the third quarter. Also prepare a schedule of expected cash disbursements for geico compound, by month and in total, for the third quarter.