Hayes believes it can meet future sales requirements by maintaining an ending inventory equal to 20% of the next quarter's budgeted sales volume. The production budget is shown below

a. Sales budget

The first budget prepared.
Each of the other budgets depends on the sales budget.
It is derived from the sales forecast. It represents management's best estimate of sales revenue for the budget period.

The sales budget is prepared by multiplying the expected unit sales volume for each product by its anticipated unit selling price.

For Hayes Company, sales volume is expected to be 3,000 units in the first quarter with 500-unit increments in each succeeding year. Based on a sales price of $60 per unit, the sales budget for the year by quarters is shown below:

Sales Budget
For the year ending 31, 20XX

Period	1	2	3	4
Expected sales units				
Selling price				
Total sales				

b. Production Budget

Production Budget
For the year ending 31, 20XX

Period	1	2	3	4
Expected sales units				
+ Closing stock				
-Opening stock				
Total Production unit				

c. Direct Materials Budget

- Shows both the quantity and cost of direct materials to be purchased.
- It is derived from the direct materials units required for production (per production budget) plus the desired ending direct materials units less the beginning direct materials units.
- Hayes has found that an ending inventory of raw materials equal to 10% of the next quarter's production is sufficient. The manufacture of Kitchen-mate requires 2 pounds of raw materials and the expected cost per pound is $4. Assume ending direct materials for the 4th quarter are 1,020 pounds. The direct materials budget is shown below:

Direct Material budget
For the year ending 31, 20XX

Period	1	2	3	4
Production unit				
X D. Materials needed				
Total material needed for production				
+ Opening Inventory				
-Closing Inventory				

d. Direct Labor Budget

At Hayes Company, two hours of direct labor are required to produce each unit of finished goods, and the anticipated hourly wage rate is $10. The direct labor budget is shown below.

Direct Labour budget
For the year ending 31, 20XX

Period	1	2	3	4

Production units				
X D. Labour hr per unit				
Total D. labour hr				
D. labour cost				

d. Manufacturing Overhead and Selling and Administrative Budget

- Manufacturing overhead budget
  expected manufacturing overhead costs
- Selling and administrative expense budget
  projection of anticipated operating expenses
- Both distinguish between fixed and variable costs.

Hayes Company expects variable costs to fluctuate with production volume on the basis of the following rates per direct labor hour (as calculated in the Direct Labor Budget).
Indirect materials $1.00/hr Indirect labor $1.40/hr
Utilities $.40/hr Maintenance $ .20/hr

Variable Manufacturing Overhead
For the year ending 31, 20XX

Period	1	2	3	4
Variable MO				
Indirect Materials				
Indirect Labour				
Utilities				
Maintenance				

Fixed costs complete the manufacturing overhead budget and the totals are used to calculate an overhead rate, which will be applied to production on the basis of direct labor hours.

Fixed Manufacturing Overhead
For the year ending 31, 20XX

Period	1	2	3	4
Fixed MO				
Supervisor salaries				

Depreciation				
Property tax & Insurance				
Maintenance				

e. Selling and Administrative Expense Budget

Variable expenses are based on the unit sales projected in the sales budget. The rates per unit of sales are sales commissions $3.00 and freight-out $1.00. Fixed costs are based on assumed data and
include $1,000 of depreciation per quarter.

Selling And administration Expenses Budget
For year ending December, 31 XXX

Period	1	2	3	4
Sales Commissions				
Freight Out				
Total Variable				
Fixed Expenses				