

Planning the Future of Barbecues

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THE COMPANY

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THE COMPANY

The Kitchen & Grill Company is engaged in the manufacturing of deluxe garden barbecue grills. They have commercial presence in Monterrey, Guadalajara, and Mexico City, and their customers are distributors of fine cuts of meat or barbecue schools.

The company has two products: the “*Sol y Fuego*”(Sun and Fire) grill, which evokes the power of fire and the intensity of heat, ideal for fast, great flavor grills, and the grill “*Maestro Parrillero*” (Barbecue Maestro), which suggests a level of mastery and expertise in the grill, ideal for meat lovers.

The Kitchen & Grill Company’s CEO must prepare a budget for the next three years.

FINANCIAL INFORMATION

As a previous step to the sales, costs, and expenses budget calculations for the fiscal year that started on January 1, 2024, the Kitchen & Grill’s Accounting Department is preparing the following provisional balance up to December 31, 2024.

	ASSETS	LIABILITIES
Cash	\$ 8,572,500	
Accounts receivable	\$ 2,323,600	
Inventory of finished product	Information available in the inventories section	
Material	Information available in the inventories section	
Expenses paid in advance	\$ 1,481,000	
Property, plant, and equipment	\$ 12,012,500	
Accrued depreciation		\$ 2,889,700
Accounts payable		\$ 1,147,000
Taxes payable		\$11,430,000
Social capital		\$ 3,330,000
Retained earnings		To be defined

2025 SALES BUDGETS AND COSTS

On an annual basis, there must be sales, production, and other operational data projections of the different administration units.

Next, there is a synthesis of the selected information regarding sales and production for 2025:

a Estimated sales for 2025 ■ per sales territory	
Monterrey	
Sol y Fuego (Sun & Fire)	3,720 units at \$ 12,950 (MXN) per unit
Maestro Parrillero (Barbecue Maestro)	1,800 units at \$ 22,200 (MXN) per unit
Guadalajara	
Sol y Fuego (Sun & Fire)	2,880 units at \$ 13,875(MXN) per unit
Maestro Parrillero (Barbecue Maestro)	1,320 units at \$ 24,050 (MXN) per unit
Mexico City	
Sol y Fuego (Sun & Fire)	4,320 units at \$ 13,875(MXN) per unit
Maestro Parrillero (Barbecue Maestro)	2,160 units at \$ 25,900 (MXN) per unit

b Inventories projected ■ to January 1st., 2025	
Direct material	
Grids	290 units
Stainless steel	680 kg
Burners	170 units
Shelves	340 units
Finished product	
Sol y Fuego (Sun & Fire)	300 units
Maestro Parrillero (Barbecue Maestro)	320 units

c Expected inventories ■ for December 31, 2025	
Direct material	
Grids	340 units
Stainless steel	820 kg
Burners	155 units
Shelves	315 units
Finished product	
Sol y Fuego (Sun & Fire)	400 units
Maestro Parrillero (Barbecue Maestro)	220 units

d Direct material used
■ in production

In the manufacturing of Sol y Fuego (Sun & Fire):

Grids	3 units per product unit
Stainless steel	11 kg per product unit
Burners	2 units per product unit
Shelves	4 units per product unit

**In the manufacturing of Maestro Parrillero
(Barbecue Maestro):**

Grids	6 units per product unit
Stainless steel	19 kg per product unit
Burners	4 units per product unit
Shelves	5 units per product unit

e Purchase price
■ of direct materials

Grids	\$ 280 per unit
Stainless steel	\$ 245 per kg
Burners	\$ 2050 per unit
Shelves	\$ 185 per unit

f Workforce
■ requirements:

Sol y Fuego (Sun & Fire)

Molding Department	0.50 h at \$ 315(MXN) per h
Development Department	0.60 h at \$ 275(MXN) per h
Assembly Department	1.00 h at \$ 260(MXN) per h

Maestro Parrillero (Barbecue Maestro)

Molding Department	0.60 h at \$ 315(MXN) per h
Development Department	0.80 h at \$ 275(MXN) per h
Assembly Department	1.50 h at \$ 260(MXN) per h



The budgetary projections of the manufacturing costs and operation expenses for next year are hereby summarized:

Projected costs and expenses for 2025 (and still in force in 2024)		
	FIXED (ANNUAL TOTAL)	VARIABLE (PER UNIT SOLD)
Cost of the manufactured and sold goods		
Direct material		Information available in the body of the document
Direct workforce		Information available in the body of the document
Factory general expenses		
Depreciation of plant and equipment	\$ 740,000	
Other general factory expenses	\$ 222,000	\$ 120.00
Sales expenses		
Salaries and sales commissions	\$ 2,851,000	\$ 95.00
Marketing	\$ 11,184,000	\$ -
Other sales expenses	\$ 4,011,000	\$ 56.00
Administrative expenses		
Office and executive salaries	\$10,339,400	\$ 32.00
Supplies	\$ 3,092,500	\$ 48.50
Other administrative expenses	\$ 2,740,000	\$ 39.50

Fixed general manufacturing expenses are apportioned based on the units sold.

MORE NUMBERS

It is not expected that the balance of accounts receivable, expenses paid in advance, and accounts payable at the end of the year significantly differ from the initial balance. It is expected that in the month of July, eight million pesos (MXN) of dividends are declared and paid. It is anticipated that fixed assets for \$13,500,000 (MXN) will be bought in cash in May 2025. Tax rate is 34 percent. Taxes that were generated in 2024 must be paid in 2025.

Expenses paid in advance will remain with no change compared to the previous year.

For inventory valuation, it is estimated that material costs for 2025 will not increase regarding costs in 2024.

Image. Isaac Taylor in Pexels, 2024.



The cost of the product “Sol y Fuego” (Sun& Fire) for 2024 is of \$8,900 pesos (MXN), and the cost of “Maestro Parrillero” (Barbecue Maestro) is of \$15,700 pesos (MXN).



THE FUTURE

Sales growth for 2025, 2026, and 2027 are expected to be 17%, 15%, and 12% respectively. By 2025, both accounts receivable and payable will increase in the same proportion as sales. For 2026 and 2027, both costs of sales and working capital accounts (inventory, accounts receivable, and accounts payable), must increase in the same proportion as sales.

Sales and administrative expenses for 2026 and 2027 will increase 5%, what is calculated to be inflation in those years. Expenses paid in advance will remain without change regarding 2025. In 2026 and 2027, the depreciation will be \$850,000 pesos (MXN). In 2026, \$25 million pesos (MXN) will be paid in dividends, and in 2027, \$22 million (MXN). In 2025, 2026, and 2027, the company's financing or investment will be defined according to the company's operation needs. Should there be financing, the annual interest rate would be 14 percent.

THE DECISION

The CEO expected to have ready a statement of results and a general balance for 2025, 2026, and 2027. He knew that he would have in detail the sales, production, direct material, workforce, among other concepts for 2025; although for 2026 and 2027, he would have to work with the expected growth to have a good projection. He also expected to have the cash flow stipulated for 2025; this would enable him to see the company's performance. He was happy to see the improvement, but he wanted to have financial calculations to endorse his expectations.