

9. Budgeting

Spencer Ltd. has recently completed its annual sales forecast to December 2006. It expects to sell two products – Silver at €140 and Gold at €170.

All stocks are to be reduced by 20% from their opening levels by the end of 2006 and are valued using the FIFO method.

	Silver	Gold
Sales are expected to be	8,000 units	3,700 units

Stocks of finished goods on 1/1/2006 are expected to be:

Silver	500 units at €120 each
Gold	400 units at €140 each

Both products use the same raw materials and skilled labour but in different quantities per unit as follows:

	Silver	Gold
Material 1	6 kgs	4 kgs
Material 2	5 kgs	7 kgs
Skilled labour	6 hours	7 hours

Stocks of raw materials on 1/1/2006 are expected to be:

Material 1	4000 kgs @ €1.80 per kg
Material 2	3000 kgs @ €3.50 per kg

The expected prices for raw materials during 2006 are:

Material 1	€2 per kg
Material 2	€4 per kg

The skilled labour rate is expected to be €12 per hour.

Production overhead costs are expected to be:

Variable	€3 per skilled labour hour
Fixed	€145,480 per annum

You are required to prepare a:

- (a) Production Budget (in units).
- (b) Raw Materials Purchases Budget (in units and €).
- (c) Production Cost/Manufacturing Budget.
- (d) Budgeted Trading Account (*if the budgeted cost of a unit of Silver and Gold is €134 and €155 respectively*).
- (e) Note on the factors taken into account by Spencer Ltd. in arriving at the expected sales in 2006 of 11,700 units.

(80 marks)