9. Budgeting

Roche Ltd has recently completed its annual sales forecast to December 2009. It expects to sell two products – Super at €220 and Supreme at €260.

All stocks are to be reduced by 20% from their opening levels by the end of 2009 and are valued using the FIFO method.

	Super	**Supreme**
Sales are expected to be	10,000 units	4,200 units

Stocks of finished goods on 1/1/2009 are expected to be:

Super	600 units at €120 each
Supreme	450 units at €140 each

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

	Super	**Supreme**
Material x	7 kgs	5 kgs
Material y	6 kgs	8 kgs
Skilled labour	7 hours	8 hours

Stocks of raw materials on 1/1/2009 are expected to be:

Material x	5000 kgs @ €2.50 per kg
Material y	3000 kgs @ €4.50 per kg

The expected prices for raw materials during 2009 are:

Material x	€3 per kg
Material y	€5 per kg

The skilled labour rate is expected to be €13 per hour.

Production overhead costs are expected to be:

Variable	€4 per skilled labour hour
Fixed	€204,080 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 Super and Supreme is €180 and €210 respectively)*.

(e) (i) Explain what is meant by a Capital Budget.

(ii) The Principal Budget factor is sales demand in most organisations. State two other items that could also be considered to be the Principal Budget factor.

(80 marks)