9. Budgeting

O'Connor Ltd has recently completed its annual sales forecast to December 2012. It expects to sell two products – Light at €280 and Extra Light at €320.

All stocks are to be reduced by 10% from their opening levels by the end of 2012 and are valued using the FIFO method.

	Light	**Extra Light**
Sales are expected to be	12,000 units	3,500 units

Stocks of finished goods on 1/1/2012 are expected to be:

Light	650 units at €200 each
Extra Light	500 units at €220 each

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

	Light	**Extra Light**
Material A	8 kgs	6 kgs
Material B	9 kgs	7 kgs
Skilled labour	8 hours	9 hours

Stocks of raw materials on 1/1/2012 are expected to be:

Material A	6000 kgs @ €3.50 per kg
Material B	4000 kgs @ €5.00 per kg

The expected prices for raw materials during 2012 are:

Material A	€4.00 per kg
Material B	€5.50 per kg

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

Production overhead costs are expected to be:

Variable	€4.50	per skilled labour hour
Fixed	€210,500	per annum

Required:

(a) Prepare a Production Budget (in units).

(b) Prepare a Raw Materials Purchases Budget (in units and €).

(c) Prepare a Production Cost/Manufacturing Budget.

(d) Calculate the unit cost of budgeted closing stock of both products.

(e) (i) Explain the term 'Master Budget'.
(ii) List the components of a Master Budget for a manufacturing firm.

(80 marks)