9. Production Budgeting

Keogh Ltd has recently completed its sales forecast for the year to 31 December 2011.
It expects to sell two products - Minor at €130 and Major at €175.

All stocks are to be increased by 30% from their opening levels by the end of 2011 and are valued using the FIFO method.

	Minor	**Major**
Sales demand is expected to be:	12,500 units	8,750 units

Stocks of finished goods on 1 January 2011 are expected to be:

Minor	650 units @ €75 each
Major	480 units @ €120 each

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

	Minor	**Major**
Material X	4 kg	6 kg
Material Y	3 kg	4 kg
Skilled labour	3 hours	5 hours

Stocks of raw materials on 1 January 2011 are expected to be:

Material X	800 kg @ €4.50 per kg
Material Y	600 kg @ €2.50 per kg

The expected prices for raw materials during 2011 are:

Material X	€5.00 per kg
Material Y	€3.00 per kg

The skilled labour rate is expected to be €15 per hour.

The company's production overhead costs are expected to be:

Variable	€2 per skilled labour hour
Fixed	€323,835 per annum

You are required to prepare, for the year to 31 December 2011, Keogh Ltd's:

(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 Minor and Major is €95 and €152 respectively*).

(e) Outline three advantages of budgeting to a business.

(80 marks)