9. Production Budgeting (80)

(a) Production Budget (in units) (16)

Production Budget of Keogh Ltd	Minor Units	Major Units
Required for Sales	12,500 **(2)**	8,750 **(2)**
Add Closing Stock (130% of Opening Stock)	845 **(3)**	624 **(3)**
	13,345	9,374
Less Opening Stock	(650) **(3)**	(480) **(3)**
Budgeted Production (Units)	12,695	8,894

(b) Raw Materials Purchases Budget (in units and €) (18)

Raw Materials Purchase Budget		Mat. X kg		Mat. Y kg
Required for Production				
Minor	(12,695 × 4)	50,780 **(2)**	(12,695 × 3)	38,085 **(2)**
Major	(8,894 × 6)	53,364 **(2)**	(8,894 × 4)	35,576 **(2)**
		104,144		73,661
Add Closing Stock (130% of Opening Stock)		1,040 **(2)**		780 **(2)**
		105,184		74,441
Less Opening Stocks		(800) **(2)**		(600) **(2)**
Required Purchases of Raw Materials in kgs		104,384		73,841
Purchase Price		€5.00 **(1)**		€3.00 **(1)**
Purchase cost		€521,920		€221,523

(c) Production Cost/Manufacturing Budget (26)

Budgeted Manufacturing Account
for the year ending 31/12/2011

		€	€
Direct Materials			
Opening Stock of Raw Materials (800 × €4.50 + 600 × €2.50)			5,100 **(4)**
Purchase of Raw Materials (521,920 + 221,523)			743,443 **(2)**
			748,543
Less Closing Stock of Raw Materials (1,040 × €5.00 + 780 × €3.00)			(7,540) **(4)**
			741,003
Direct Labour			
Minor	(12,695 × 3 hrs. × €15.00)	571,275 **(2)**	
Major	(8,894 × 5 hrs. × €15.00)	667,050 **(2)**	1,238,325
Variable Overheads			
Minor	(12,695 × 3 hrs. × €2.00)	76,170 **(3)**	
Major	(8,894 × 5 hrs. × €2.00)	88,940 **(3)**	165,110
Fixed Overheads			323,835 **(2)**
Total Production Cost			* 2,468,273 **(4)**

* Accept correct figure only.

(d) Budgeted Trading Account *(if the budgeted cost of a unit of Major and Minor is €91.60 and €135.40 respectively)* (14)

Budgeted Trading Account
for the year ending 31/12/2011

	€	€
Sales (1,625,000 + €1,531,250)		3,156,250 **(2)**
Less Cost of Sales		
Opening Stock of Finished Goods (650 × €75 + 480 × €120)	106,350 **(2)**	
Add Cost of Manufacture	** 2,468,273 **(2)**	
	2,574,623	
Less Closing Stock of Finished Goods (845 × €95 + 624 × €152)	(175,123)**(4)**	2,399,500
Gross Profit		**756,750 **(4)**

* Accept student's own figures.

(e) Outline **three** advantages of budgeting to a business. (6)

Any 3: **(3 × 2)**

- the goals of individuals and departments are more likely to be in harmony with the long-term objectives of a business //
- give advance warning of financial problems //
- variances can be identified and measures taken to correct them //
- can be a form of motivation //
- helps communication between departments //
- ensures efficient use of resources //
- defines areas of responsibility //
- ensures that planning takes place //
- helps with cost control and enhances profitability // *etc.*

** Accept other appropriate answers.