

## 9. Budgeting

Al Houlei Ltd has recently completed its annual sales forecast to December 2013. It expects to sell two products - Standard at €150 and Premium at €195.

All stocks are to be increased by 20% from their opening levels by the end of 2013 and are valued using the FIFO method.

|                           | <b>Standard</b> | <b>Premium</b> |
|---------------------------|-----------------|----------------|
| Sales are expected to be: | 12,800 units    | 8,400 units    |

Stocks of finished goods on 01/01/2013 are expected to be:

|          |                        |
|----------|------------------------|
| Standard | 750 units at €110 each |
| Premium  | 500 units at €160 each |

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

|                | <b>Standard</b> | <b>Premium</b> |
|----------------|-----------------|----------------|
| Material R     | 3 kgs           | 5 kgs          |
| Material S     | 4 kgs           | 6 kgs          |
| Skilled labour | 5 hours         | 7 hours        |

Stocks of raw materials on 01/01/2013 are expected to be:

|            |                          |
|------------|--------------------------|
| Material R | 4,000 kgs @ €2.50 per kg |
| Material S | 2,000 kgs @ €4.00 per kg |

The expected prices for raw materials during 2013 are:

|            |              |
|------------|--------------|
| Material R | €3.00 per kg |
| Material S | €4.50 per kg |

The skilled labour rate is expected to be €14 per hour.

Production overhead costs are expected to be:

|          |          |                         |
|----------|----------|-------------------------|
| Variable | €3.50    | per skilled labour hour |
| Fixed    | €223,650 | per annum               |

### Required:

- Prepare a Production Budget (in units).
- Prepare a Raw Materials Purchases Budget (in units and €).
- Prepare a Production Cost/Manufacturing Budget.
- Calculate the unit cost of budgeted closing stock of both products.
- Outline **three** differences in focus between Management and Financial accounting.

**(80 marks)**