9. Budgeting

Crowley Ltd has recently completed its annual sales forecast to December 2015. It expects to sell two products – Micro at €240 and Excel at €300.

All stocks are to be reduced by 20% from their opening levels by the end of 2015 and are valued using the FIFO method.

	Micro	**Excel**
Sales are expected to be	11,000 units	6,500 units

Stocks of finished goods on 01/01/2015 are expected to be:

Micro	800 units at €130 each
Excel	550 units at €150 each

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

	Micro	**Excel**
Material X	6 kgs	4 kgs
Material Y	5 kgs	7 kgs
Skilled labour	7 hours	8 hours

Stocks of raw materials on 01/01/2015 are expected to be:

Material X	7000 kgs @ €1.80 per kg
Material Y	5000 kgs @ €3.60 per kg

The expected prices for raw materials during 2015 are:

Material X	€2 per kg
Material Y	€4 per kg

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

Production overhead costs are expected to be:

Variable	€5	per skilled labour hour
Fixed	€180,400	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) Prepare a Budgeted Trading Account *(if the budgeted cost of a unit of Micro and Excel is €160 and €184 respectively)*.
(e) (i) Define what is meant by a Cash Budget and explain **two** advantages of a Cash Budget.
(ii) The Principal Budget factor is sales demand in most organisations. State **two** other factors that could also be considered to be the Principal Budget factor.

(80 marks)