9. Budgeting

Austin Ltd has recently completed its annual sales forecast to December 2014. It expects to sell two products – Comfort at €250 and Deluxe at €290.

All stocks are to be reduced by 30% from their opening levels by the end of 2014 and are valued using the FIFO method.

	Comfort	Deluxe
Sales are expected to be:	13,500 units	6,200 units

Stocks of finished goods on 1/1/2014 are expected to be:

Comfort	800 units at €170 each
Deluxe	600 units at €210 each

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

	Comfort	Deluxe
Material P	4 kgs	6 kgs
Material Q	5 kgs	8 kgs
Skilled labour	7 hours	9 hours

Stocks of raw materials on 1/1/2014 are expected to be:

Material P	7,000 kgs @ €4.50 per kg
Material Q	5,000 kgs @ €6.00 per kg

The expected prices for raw materials during 2014 are:

Material P	€5.00 per kg
Material Q	€6.50 per kg

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

Production overhead costs are expected to be:

Variable	€5.50	per skilled labour hour
Fixed	€367,500	per annum

You are required to:

(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) What is a favourable variance?
(ii) State why favourable variances may arise in Direct Material Costs.

(80 marks)