

9. **Budgeting** (80)

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

<b>Production Budget</b>	<u>Comfort</u>	<u>Deluxe</u>
Budgeted Sales (in units)	13,500 (3)	6,200 (3)
Add Closing Stock (70% of Opening Stock)	<u>560 (3)</u>	<u>420 (3)</u>
	14,060	6,620
Less Opening Stock	<u>(800)(2)</u>	<u>(600)(2)</u>
Budgeted Production (in units)	<u><u>13,260</u></u>	<u><u>6,020</u></u>

(b) Raw Materials Purchases Budget (in units and €) (20)

<b>Raw Materials Purchases Budget</b>	<u>Mat. P</u>	<u>Mat. Q</u>
Required for Production:		
Comfort	(*13,260 × 4 kgs) 53,040 (2)	(*13,260 × 5 kgs) 66,300 (2)
Deluxe	(*6,020 × 6 kgs) <u>36,120 (2)</u>	(*6,020 × 8 kgs) <u>48,160 (2)</u>
	89,160	114,460
Add Closing Stock (70% of Opening Stock)	<u>4,900 (2)</u>	<u>3,500 (2)</u>
	94,060	117,960
Less Opening Stock	<u>(7,000)(2)</u>	<u>(5,000)(2)</u>
Required Purchases of Raw Materials (in kgs)	87,060	112,960
Purchase Price	<u>€5.00 (2)</u>	<u>€6.50 (2)</u>
Purchases (in €)	<u><u>€435,300</u></u>	<u><u>€734,240</u></u>

\* Accept student's own figure if consistent with previous work.

(c) Production Cost/Manufacturing Budget (22)

<b>Production Cost / Manufacturing Budget</b>			€	€
<u>Direct Materials</u>				
Opening Stock of Raw Materials	Comfort	(7,000 × €4.50)	31,500	
	Deluxe	(5,000 × €6.00)	<u>30,000</u>	61,500 (4)
Purchase of Raw Materials	Material P		*435,300	
	Material Q		<u>*734,240</u>	1,169,540 (2)
				1,231,040
<u>Less</u>				
Closing Stock of Raw Materials	Comfort	(*4,900 × €5.00)	24,500	
	Deluxe	(*3,500 × €6.50)	<u>22,750</u>	<u>(47,250)(4)</u>
				1,183,790
Cost of Labour	Comfort	(13,260 × 7 hrs × €15.00)	1,392,300 (2)	
	Deluxe	(6,020 × 9 hrs × €15.00)	<u>812,700 (2)</u>	2,205,000
Variable Overheads	Comfort	(*13,260 × 7 hrs × €5.50)	510,510 (2)	
	Deluxe	(*6,020 × 9 hrs × €5.50)	<u>297,990 (2)</u>	808,500
Fixed Overheads				<u>367,500 (2)</u>
Cost of Manufacture				<u><u>**4,564,790 (2)</u></u>

\* Accept student's own figure if consistent with previous work.

\*\* Accept correct figure only.

(d) Unit cost of budgeted closing stock of both products (14)

Budgeted Closing Stock per Unit	€		€	
	Comfort		Deluxe	
Material P (4 kgs × €5.00)	20.00	(1)	(6 kgs × €5.00)	30.00 (1)
Material Q (5 kgs × €6.50)	32.50	(1)	(8 kgs × €6.50)	52.00 (1)
Direct Labour (7 hrs × €15.00)	105.00	(1)	(9 hrs × 15.00)	135.00 (1)
Variable Overheads (7 hrs × €5.50)	38.50	(1)	(9 hrs × €5.50)	49.50 (1)
Fixed Overheads (W1) (7 hrs × *€2.50)	17.50	(1)	(9 hrs × *€2.50)	22.50 (1)
Cost per Unit	<u>**213.50</u>	(1)	<u>**289.00</u>	(1)

**Working:**

W1 Fixed overheads per direct labour hour

$$= \frac{*367,500}{(*13,260 \times 7 \text{ hrs}) + (*6,020 \times 9 \text{ hrs})}$$

$$= \text{€}2.50 \text{ (2)}$$

\* Accept student's own figure if consistent with previous work.

\*\* Accept correct figure only.

(e) (i) What is a favourable variance? (4) (8)

– a favourable variance is where actual costs are less than budgeted costs

\*\* Accept other appropriate material.

(ii) State why favourable variances may arise in Direct Material Costs.

Any 2: (2 × 2)

- if the purchase price of materials is lower than expected //
- if the quantities of materials used are lower than expected //
- decrease in budgeted import duties //
- decrease in budgeted delivery charges // etc.

\*\* Accept other appropriate answers.