

## 9. Budgeting

Farrell Ltd has recently completed its annual sales forecast to December 2016. It expects to sell two products – Basic at €250 and Superior at €290.

All stocks are to be reduced by 30% from their opening levels by the end of 2016 and are valued using the FIFO method.

|                           |                              |                                |
|---------------------------|------------------------------|--------------------------------|
| Sales are expected to be: | <b>Basic</b><br>12,800 units | <b>Superior</b><br>7,300 units |
|---------------------------|------------------------------|--------------------------------|

|  |                        |
|--|------------------------|
| Stocks of finished goods on 01/01/2016 are expected to be: |                        |
| Basic  | 700 units at €180 each |
| Superior   | 450 units at €240 each |

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

|                |              |                 |
|----------------|--------------|-----------------|
|                | <b>Basic</b> | <b>Superior</b> |
| Material A     | 5 kgs        | 3 kgs           |
| Material B     | 4 kgs        | 7 kgs           |
| Skilled labour | 6 hours      | 8 hours         |

|   |                          |
|---|--------------------------|
| Stocks of raw materials on 01/01/2016 are expected to be: |                          |
| Material A  | 8,000 kgs @ €2.70 per kg |
| Material B  | 6,000 kgs @ €5.50 per kg |

|  |              |
|--|--------------|
| The expected prices for raw materials during 2016 are: |              |
| Material A   | €3.00 per kg |
| Material B   | €6.00 per kg |

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

|   |                               |
|---|-------------------------------|
| Production overhead costs are expected to be: |                               |
| Variable                                      | €6.50 per skilled labour hour |
| Fixed   | €278,500 per annum            |

### You are required to:

- 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.
- State and explain **two** reasons for product costing.

**(80 marks)**