

9. Budgeting

O'Sullivan Ltd recently completed its annual sales forecast to the end of 2018. It expects to sell two products – Basic at €260 and Deluxe at €340.

All stocks are to be reduced by 10% from their opening levels by the end of 2018 and are valued using the FIFO method.

	Basic	Deluxe
Expected sales	1,800 units	1,500 units

Stocks of finished goods on 01/01/2018 are expected to be:

Basic	50 units at €220 each
Deluxe	60 units at €290 each

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

	Basic	Deluxe
Material A	5 kgs	7 kgs
Material B	3 kgs	6 kgs
Skilled labour	4 hours	5 hours

Stocks of raw materials on 01/01/2018 are expected to be:

Material A	3,000 kgs @ €4.50 per kg
Material B	2,000 kgs @ €5.50 per kg

The expected prices for raw materials during 2018 are:

Material A	€5.00 per kg
Material B	€6.00 per kg

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

Production overhead costs are expected to be:

Variable	€8 per skilled labour hour
Fixed	€322,300 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 (you are required to calculate the unit cost of budgeted closing stock of both products).
- (e) Why is it important that a business prepares regular budgets?

(80 Marks)