

Question 9 – Budgeting

(a)

Production budget	Basic		Deluxe	
Budgeted sales in units	1,800	[2]	1,500	[2]
Add closing stock	<u>45</u>	[2]	<u>54</u>	[2]
	1,845		1,554	
Less opening stock	<u>(50)</u>	[2]	<u>(60)</u>	[2]
Budgeted production (units)	<u>1,795</u>		<u>1,494</u>	

(b)

Materials Purchases Budget		Material A (Kgs)		Material B (Kgs)		
Basic	(1,795 × 5kgs)	8,975	[2]	(1,795 × 3kgs)	5,385	[2]
Deluxe	(1,494 × 7kgs)	<u>10,458</u>	[2]	(1,494 × 6kgs)	<u>8,964</u>	[2]
		19,433			14,349	
Add closing stock		<u>2,700</u>	[2]		<u>1,800</u>	[2]
		22,133			16,149	
Less opening stock		<u>(3,000)</u>	[2]		<u>(2,000)</u>	[2]
Budgeted purchases if R.M. in kgs		19,133			14,149	
Purchase price		<u>€5</u>	[1]		<u>€6</u>	[1]
Purchases in €		<u>€95,665</u>			<u>€84,894</u>	

(c)

Production Cost/Manufacturing Budget	€	€	
Opening stock of raw materials			
A (3,000 × €4.50)	13,500		
B (2,000 × €5.50)	<u>11,000</u>	24,500	[4]
Add purchases of raw materials (95,665 + 84,894)		<u>180,559</u>	[2]
		205,059	
Less closing stock of raw materials			
A (2,700 × €5)	13,500		
B (1,800 × €6)	<u>10,800</u>	<u>(24,300)</u>	[4]
		180,759	
Labour cost			
Basic (1,795 × 4 × 15)	107,700		
Deluxe (1,494 × 5 × 15)	<u>112,050</u>	219,750	[4]
Variable overhead			
Basic (1,795 × 4 × 8)	57,440		
Deluxe (1,494 × 5 × 8)	<u>59,760</u>	117,200	[4]
Fixed overhead		<u>322,300</u>	[2]
Cost of Manufacture		<u>840,009</u>	[3]

(d)

Budgeted Closing Stock per unit		Basic		Deluxe	
Material A	(5kg × €5)	25	[1]	(7kg × €5)	35 [1]
Material B	(3kg × €6)	18	[1]	(6kg × €6)	36 [1]
Direct labour	(4hrs × €15)	60	[1]	(5hrs × €15)	75 [1]
Variable overheads	(4hrs × €8)	32	[1]	(5hrs × €8)	40 [1]
Fixed overheads	(4hrs × €22)	<u>88</u>	[1]	(5hrs × €22)	<u>110</u> [1]
Cost per unit		<u>223</u>			<u>296</u>

Fixed overheads per direct labour hour

$$\frac{322,300}{(1,795 \times 4\text{hrs}) + (1,494 \times 5\text{hrs})} = \frac{322,300}{14,650} = \text{€22 [2]}$$

Budgeted Trading Account		€	€
Sales (1,800 × €260) + (1,500 × €340)	[468,000 + 510,000]		978,000 [2]
Opening stock of finished goods			
Basic (50 × €220)	11,000		
Deluxe (60 × €290)	<u>17,400</u>	28,400 [2]	
Cost of manufacture		<u>840,009</u> [1]	
		868,409	
Less closing stock of finished goods			
Basic (45 × €223)	10,035		
Deluxe (54 × €296)	<u>15,984</u>	(26,019) [2]	(842,390)
Gross profit			<u>135,610</u> [2]

[6]

(e) **The importance of budgeting:**

1. Budgeting is part of the planning process. It is a financial road map for a business.
2. Budgeting helps define areas of responsibility for staff and motivates staff to achieve targets, improves communication and builds teamwork.
3. The resources of the organisation are used as efficiently as possible and it can adapt quickly to changing circumstances.
4. Budgeted figures can be compared with actual performance. Adverse variances can be investigated and action taken to ensure it does not happen again.