

9. Budgeting

Fox Ltd has recently completed its annual sales forecast to December 2017. It expects to sell two products – Regular at €270 and Premium at €310.

All stocks are to be increased by 20% from their opening levels by the end of 2017 and are valued using the FIFO method.

	Regular	Premium
Sales are expected to be:	13,000 units	8,500 units

Stocks of finished goods on 01/01/2017 are expected to be:

Regular	850 units at €140 each
Premium	650 units at €170 each

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

	Regular	Premium
Material A	7 kgs	6 kgs
Material B	5 kgs	8 kgs
Skilled labour	7 hours	9 hours

Stocks of raw materials on 01/01/2017 are expected to be:

Material A	9,000 kgs @ €2.90 per kg
Material B	7,000 kgs @ €4.70 per kg

The expected prices for raw materials during 2017 are:

Material A	€5.00 per kg
Material B	€7.00 per kg

The skilled labour rate is expected to be €13 per hour.

Production overhead costs are expected to be:

Variable	€5.50	per skilled labour hour
Fixed	€325,500	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) Define what is meant by a Cash Budget and explain what useful information is available from a Cash Budget.

(80 marks)