

9. Budgeting

(80)

- (a) Prepare a Production Budget (in units). (16)

Production Budget	<u>Regular</u>	<u>Premium</u>
Budgeted Sales (in units)	13,000 (3)	8,500 (3)
<u>Add</u> Closing Stock [120% of Opening Stock]	<u>1,020 (3)</u>	<u>780 (3)</u>
	14,020	9,280
<u>Less</u> Opening Stock	<u>(850)(2)</u>	<u>(650)(2)</u>
Budgeted Production (in units)	<u>13,170</u>	<u>8,630</u>

- (b) Prepare a Raw Materials Purchases Budget (in units and €). (20)

Raw Materials Purchases Budget	<u>Mat. A</u>	<u>Mat. B</u>
Required for Production:		
Regular	[•13,170 × 7 kgs] 92,190 (2)	[•13,170 × 5 kgs] 65,850 (2)
Premium	[•8,630 × 6 kgs] <u>51,780 (2)</u>	[•8,630 × 8 kgs] <u>69,040 (2)</u>
	143,970	134,890
<u>Add</u> Closing Stock [120% of Opening Stock]	<u>10,800 (2)</u>	<u>8,400 (2)</u>
	154,770	143,290
<u>Less</u> Opening Stock	<u>(9,000)(2)</u>	<u>(7,000)(2)</u>
Required Purchases of Raw Materials (in kgs)	145,770	136,290
Purchase Price	€5.00 (2)	€7.00 (2)
Purchases (in €)	<u>€728,850</u>	<u>€954,030</u>

- Allow full marks for student's own figure if consistent with previous work.

- (c) Prepare a Production Cost/Manufacturing Budget. (22)

Production Cost / Manufacturing Budget		€	€
<u>Direct Materials</u>			
Opening Stock of Raw Materials	Material A	[9,000 × €2.90] 26,100 (2)	
	Material B	[7,000 × €4.70] <u>32,900 (2)</u>	59,000
Purchase of Raw Materials	Material A	•728,850 (1)	
	Material B	<u>•954,030 (1)</u>	<u>1,682,880</u>
			1,741,880
<u>Less</u>			
Closing Stock of Raw Materials	Material A	[•10,800 × €5.00] 54,000 (2)	
	Material B	[•8,400 × €7.00] <u>58,800 (2)</u>	<u>(112,800)</u>
			1,629,080
Cost of Labour	Regular	[•13,170 × 7 hrs × €13.00] 1,198,470 (2)	
	Premium	[•8,630 × 9 hrs × €13.00] <u>1,009,710 (2)</u>	2,208,180
Variable Overheads	Regular	[•13,170 × 7 hrs × €5.50] 507,045 (2)	
	Premium	[•8,630 × 9 hrs × €5.50] <u>427,185 (2)</u>	934,230
Fixed Overheads			<u>325,500 (2)</u>
Cost of Manufacture			<u>••5,096,990 (2)</u>

- Allow full marks for student's own figure if consistent with previous work.
- Accept correct figure only.

9. Budgeting (cont'd.)

- (d) Calculate the unit cost of budgeted closing stock of both products. (14)

		€		€	
		Regular		Premium	
Material A	[7 kgs × €5.00]	35.00	(1)	[6 kgs × €5.00]	30.00 (1)
Material B	[5 kgs × €7.00]	35.00	(1)	[8 kgs × €7.00]	56.00 (1)
Direct Labour	[7 hrs × €13.00]	91.00	(1)	[9 hrs × 13.00]	117.00 (1)
Variable Overheads	[7 hrs × €5.50]	38.50	(1)	[9 hrs × €5.50]	49.50 (1)
Fixed Overheads	W1 [7 hrs × €1.92]	13.44	(1)	[9 hrs × €1.92]	17.28 (1)
Cost per Unit		<u>212.94</u>	(1)	<u>269.78</u>	(1)

- Allow full marks for student's own figure if consistent with previous work.
- Accept correct figure only.

Working:

W1 Fixed overheads per direct labour hour

$$= \frac{325,500}{(13,170 \times 7 \text{ hrs}) + (8,630 \times 9 \text{ hrs})}$$

$$= \frac{325,500}{92,190 + 77,670}$$

$$= \frac{325,500}{169,860}$$

$$= 1.916283\dots$$

$$= \text{€}1.92 \text{ (2)}$$

- Allow full marks for student's own figure if consistent with previous work.
- Deduct 1 mark if figure not rounded to two decimal places.

- (e) Define what is meant by a Cash Budget and explain what useful information is available from a Cash Budget. (8)

1 Cash Budget (4)

- a forecast or plan (1) that summarises the expected cash inflow (1) and cash outflow (1) over a period of time (1)

2 Useful information available from a Cash Budget

Any 2: (2 × 2)

- will anticipate periods when cash deficits will occur (1), allowing finance / overdraft / loan to be arranged (1) //
- will anticipate periods when cash surpluses will occur (1), allowing short-term investment to be arranged (1) //
- will help in making sure that there are always sufficient funds available (1) to meet the day-to-day needs of the business (1) // etc.

- ** Figures in brackets show the breakdown of marks if answer incomplete.
- ** Accept student's own wording if equivalent meaning conveyed.
- ** Accept other appropriate material.