

9. Production Budgeting

Winston Ltd recently completed its annual sales forecast to the end of 2020. It expects to sell two products – Dark at €250 and Light at €300.

All stocks are to be increased by 10% from their opening levels by the end of 2020 and are valued using the FIFO method.

	Dark	Light
Expected sales	12,600 units	7,500 units

Stocks of finished goods on 01/01/2020 are expected to be:

Dark	650 units at €180 each
Light	420 units at €240 each

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

	Dark	Light
Material 1	5 kgs	7 kgs
Material 2	6 kgs	4 kgs
Skilled labour	6 hours	8 hours

Stocks of raw materials on 01/01/2020 are expected to be:

Material 1	6,500 kgs @ €2.80 per kg
Material 2	5,500 kgs @ €5.10 per kg

The expected prices for raw materials during 2020 are:

Material 1	€3.00 per kg
Material 2	€6.00 per kg

The skilled labour rate is expected to be €16 per hour.

Production overhead costs are expected to be:

Variable	€5.50 per skilled labour hour
Fixed	€681,630 per annum

Required:

- Prepare a production budget (in units).
- Prepare a raw materials purchases budget (in units and €).
- Prepare a production cost/manufacturing budget.
- Prepare a budgeted trading account (you are required to calculate the unit cost of budgeted closing stock of both products).
- Explain **three** reasons for product costing.

(80 Marks)