

Q.9 Production Budgeting

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(a) Production Budget

	Dark	Light
Budgeted sales in units	12,600 [2]	7,500 [2]
Add closing stock	715 [2]	462 [2]
Less opening stock	<u>(650) [2]</u>	<u>(420) [2]</u>
Budgeted production (units)	12,665	7,542

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(b) Raw Materials Purchases Budget

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	Material 1	Material 2
Dark	(12,665 × 5 kgs) 63,325 [2]	(12,665 × 6 kgs) 75,990 [2]
Light	<u>(7,542 × 7 kgs) 52,794 [2]</u>	<u>(7,542 × 4 kgs) 30,168 [2]</u>
	116,119	106,158
Add closing stock	7,150 [2]	6,050 [2]
Less opening stock	<u>(6,500) [2]</u>	<u>(5,500) [2]</u>
Purchases of raw materials in kgs	116,769	106,708
Purchase price	<u>× €3</u>	<u>× €6</u> [1]
Purchases of raw materials in €	350,307	640,248

Cost of Raw Materials Purchased = €350,307 + €640,248 = €990,555

(c) Production Cost/Manufacturing Budget

Direct Materials			
Opening stock of raw materials			
Material 1 (6,500 kgs × €2.80)	18,200		
Material 2 (5,500 kgs × €5.10)	<u>28,050</u>	46,250	[4]
Add purchases of raw materials		990,555	[2]
Less closing stock of raw materials			
Material 1 (7,150 kgs × €3)	(21,450)		
Material 2 (6,050 kgs × €6)	<u>(36,300)</u>	<u>(57,750)</u>	[4]
		979,055	
Labour Cost			
Dark (12,665 × 6 hrs × €16)	1,215,840		
Light (7,542 × 8 hrs × €16)	<u>965,376</u>	2,181,216	[4]
Variable overhead			
Dark (12,665 × 6 hrs × €5.50)	417,945		
Light (7,542 × 8 hrs × €5.50)	<u>331,848</u>	749,793	[4]
Fixed overhead		<u>681,630</u>	[2]
Cost of manufacture		<u>4,591,694</u>	[3]

(d) Budgeted Closing stock per unit

		Dark		Light	
Material 1	5 kg × €3	15	[1]	7 kg × €3	21 [1]
Material 2	6 kg × €6	36	[1]	4 kg × €6	24 [1]
Direct labour	6 hrs × €16	96	[1]	8 hrs × €16	128 [1]
Variable overhead	6 hrs × €5.50	33	[1]	8 hrs × €5.50	44 [1]
Fixed overhead	6 hrs × €5	<u>30</u>	[1]	8 hrs × €5	<u>40</u> [1]
		€210		€257	

$$\text{Fixed Overhead} = \frac{681,630}{(12,665 \times 6) + (7,542 \times 8)} = \text{€5} \quad [2]$$

Budgeted Trading Account for year ended 31/12/2019

Sales	(12,600 × €250) + (7,500 × €300)			5,400,000	[2]
Less cost of sales					
Opening stock	(650 × €180) + (420 × €240)	217,800	[2]		
Cost of manufacture		4,591,694	[1]		
Less closing stock	(715 × €210) + (462 × €257)	<u>(268,884)</u>	[2]	<u>(4,540,610)</u>	
Gross profit				<u>859,390</u>	[2]

- (e)**
1. Establishes the selling price for tendering purposes.
 2. Controls costs by comparing budgeted costs with actual costs.
 3. Helps with planning and decision making.
 4. To find the value of closing stock to be used when calculating profit.