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# PRODUCTION BUDGET

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# THEORY BOOKLET

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# STATE EXAM & DEB

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**Past Questions**

1. (i) What useful information is available to Houghton Ltd from the cash budget?  
(ii) Explain what is meant by a master budget. (6 Marks) 2020
2. Explain 3 reasons for product costing (6 Marks) 2019
3. Why is it important that business prepare regular budgets (6 Marks) 2017
4. Define what is meant by a Cash Budget and explain two advantages of a Cash Budget. (6 Marks)
5. The Principal Budget factor is sales demand in most organisations. State two other factors that could also be considered to be the Principal Budget factor. (2 Marks) 2014
6. Explain the term 'Master Budget'.
7. List the components of a Master Budget for a manufacturing firm. (7 Marks)
8. Explain what is meant by a Capital Budget. (2 Marks) 2011
9. The Principal Budget factor is sales demand in most organisations. State two other items that could also be considered to be the Principal Budget factor. (2 Marks) 2008

**SUGGESTED SOLUTIONS****2020**

**What useful information is available to Houghton Ltd from the cash budget?**

1. In July and August the company has a maximum cash deficit of €110,920.
2. The company needs to arrange a bank overdraft of €110,920 or else take corrective action by leasing the equipment, saving €12,000, or extending the period of credit received from one month to two months.
3. The company could also try and get customers to buy more goods for cash rather than credit.
4. This shortfall is eliminated in September and October with a cash surplus at the end of October of €345,078.
5. This could be used to purchase new fixed assets increasing the productive capacity of the firm or purchase investments which increase investment income and profit.

**Explain what is meant by a master budget.**

A master budget        this is a summary of all the other budgets and provides an overview of the operations for the planned period.

For example

A manufacturing budget, a sales budget, a cash budget.

**2019**

**Explain 3 reasons for product costing**

The following are some of the reasons for product costing

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.

**2017**

**Why is it important that business prepare regular budgets**

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.

**2014**

**Define what is meant by a Cash Budget and explain two advantages of a Cash Budget.**

**Cash Budget**                      A Cash Budget is a plan or forecast that summarises the expected inflows and outflows of cash during a period. This budget is prepared by the management accountant or the financial accountant.

Advantages

1. A cash budget will anticipate periods when the organisation will have cash surpluses and will enable it to arrange short term investments.
2. A cash budget will anticipate periods when the organization will have cash deficits and will enable it to make arrangements for a loan or overdraft.
3. A cash budget will help in making sure that there is always enough funds available to meet the day to day needs of the business.

**The Principal Budget factor is sales demand in most organisations. State two other factors that could also be considered to be the Principal Budget factor.**

Principal Budget Factor Apart from sales demand the principal budget factor could also be:

1. Availability of materials
2. Availability of labour

3. Capacity of the plant
4. Availability of capital

2011

**Explain the term 'Master Budget'.**

A Master Budget This is a summary of all the other budgets and provides an overview of the operations for the planned period. It is a summary of all the other budgets and provides an overview of the operations for the planned period.

**List the components of a Master Budget for a manufacturing firm.**

A Master Budget for a manufacturing firm consists of:

1. Budgeted manufacturing account
2. Budgeted trading account and profit and loss account
3. Budgeted balance sheet

2008

**Explain what is meant by a Capital Budget.**

The capital budget deals with

1. Any planned capital expenditure e.g. purchase of fixed assets and planned capital receipts such as the sale of the fixed assets.
2. Decisions relating to these items would be the responsibility of the board of directors.
3. The carrying out of the capital budget is the responsibility of the financial controller.

**The Principal Budget factor is sales demand in most organisations. State two other items that could also be considered to be the Principal Budget factor.**

Apart from sales demand the principal budget factor could also be

1. Supply of materials
2. Availability of labour
3. Capacity of the plant
4. Availability of capital