

## 9. Budgeting

Murray Ltd is preparing to set up business on 1/1/2014 to manufacture a single product. Below is the sales budget for the company for the first 6 months of 2014.

	Sales Budget					
	January	February	March	April	May	June
Sales units	7,000	8,000	10,000	9,000	10,500	11,000
Sales Revenue	€210,000	€240,000	€300,000	€270,000	€315,000	€330,000

- (i) Each product unit requires 5 kgs of material X, which costs €2.00 per kg.
- (ii) Stocks of finished goods are maintained at 70% of the following month's sales requirement.
- (iii) Stocks of raw materials, sufficient for 20% of the following month's requirements in kgs, are held at the end of each month.
- (iv) The cash collection pattern from sales is expected to be:

**Cash Customers**                      40% of sales revenue will be for immediate cash.

**Credit Customers**                      60% of sales revenue will be from credit customers. These debtors will pay their bills, 50% in the month after sale and the remainder in the second month after sale.

- (v) One month's credit is received from suppliers.
- (vi) Expenses of the business will be settled as follows:

**Expected Costs**                      Wages €25,000 per month, payable as incurred.  
Variable overheads €5 per unit, payable as incurred.  
Fixed overheads (including depreciation) €30,000 per month, payable as incurred.

**Capital Costs**                      Equipment will be purchased in January costing €45,000 which will have a useful life of 5 years. To finance this purchase a loan of €30,000 will be secured at 10% per annum. Interest to be paid monthly, but capital loan repayments will not commence until July 2014.

### Required:

- (a) Prepare a Production Budget for the four months January to April, 2014.
- (b) Prepare a Raw Materials Purchases Budget (in units and €) for the four months January to April, 2014.
- (c) Prepare a Cash Budget for the 4 months January to April, 2014.
- (d) Prepare a budgeted Trading and Profit and Loss Account for the 4 months ending 30/4/2014 (if the budgeted cost of a unit of finished goods is €25).
- (e) (i) What useful information is available to Murray Ltd from the completed cash budget?  
(ii) Explain what is meant by a Capital budget.

(80 marks)