Question 9

80

(a)

Production Budget

	Jan		Feb		Mar		Apr		May
Sales	7,000	[1]	8,000	[1]	10,000	[1]	9,000	[1]	10,500
+ Closing Stock	5,600	[1]	7,000	[1]	6,300	[1]	7,350	[1]	7,700
	12,600		15,000		16,300		16,350		18,200
- Opening Stock			(5,600)	[1]	(7,000)	[1]	(6,300)	[1]	(7,350)
Required for production	12,600		9,400		9,300		10,050		10,850

(b)

Raw Materials Purchases Budget

	Jan		Feb		Mar		April		May
Units of Production	12,600	[½]	9,400	[½]	9,300	[½]	10,050	[½]	10,850
Materials per unit	x 5	[½]	x 5		x 5		x 5		x 5
Required for production	63,000	[½]	47,000	[½]	46,500	[½]	50,250	[½]	54,250
Add closing stock	9,400	[½]	9,300	[½]	10,050	[½]	10,850	[1]	
	72,400		56,300		56,550		61,100		
Less Opening stock	-		(9,400)	[½]	(9,300)	[½]	(10,050)	[½]	
Required for purchases	72,400	[½]	46,900	[½]	47,250	[½]	51,050	[½]	
Price per Kg	€2.00	[½]	€2.00		€2.00		€2.00		
Cost of raw materials	€144,800	[½]	€93,800	[½]	€94,500	[½]	€102,100	[½]	€435,200

(c)

Cash Budget – January to April

	Jan		Feb		Mar		April		Total
Receipts	€		€		€		€		
Cash sales received	84,000	[1]	96,000	[1]	120,000	[1]	108,000	[1]	
Credit Sales one month			63,000	[1]	72,000	[1]	90,000	[1]	
Credit Sales two months					63,000	[1]	72,000	[1]	
	84,000		**159,000**		**255,000**		**270,000**		
Payments									
Purchases			144,800	[1]	93,800	[1]	94,500	[1]	
Wages	25,000	[1]	25,000	[1]	25,000	[1]	25,000	[1]	100,000
Variable Overhead	63,000	[1]	47,000	[1]	46,500	[1]	50,250	[1]	206,750
Fixed overhead	29,250	[1]	29,250	[1]	29,250	[1]	29,250	[1]	117,000
Equipment	45,000	[1]	-		-		-		
Interest	250	[1]	250	[1]	250	[1]	250	[1]	1,000
	162,500		**246,300**		**194,800**		**199,250**		
Net Monthly Cash Flow	**(78,500)**	[1]	**(87,300)**	[1]	**60,200**	[1]	**70,750**	[1]	
Bank Loan	30,000	[1]	-		-		-		
Opening Balance			(48,500)	[1]	(135,800)	[1]	(75,600)	[1]	
Closing Balance	**(48,500)**		**(135,800)**		**(75,600)**		**(4,850)**		

(d)

Budgeted Profit and Loss Account for the 4 months ending 30/4/2012

	€	€	€
Sales			1,020,000 [1]
Less Cost of Sales			
Opening stock		-	
Add Purchases		435,200 [1]	
		435,200	
Closing stock – Finished goods	183,750 [1]		
Raw Materials	21,700 [1]	(205,450)	(229,750)
Gross Profit			**790,250**
Less Expenses			
Wages		100,000 [3]	
Variable overhead [41,350 x 5]		206,750 [1]	
Fixed overhead		117,000 [1]	
Depreciation – Equipment		3,000 [1]	(426,750)
Operating Profit			**363,500**
Less interest			(1,000) [1]
Net Profit			**362,500** [4]

(e) [4]

(i)

Murray Ltd will be able to see in which months there will be a deficit of cash which will enable it to make arrangements for a loan or overdraft.
It will see which months will have a surplus of cash and will be able to arrange short term investments.
There was a surplus of cash in March and April.
The trend of cash shortages is getting smaller- [normal for new business].
Overdraft facilities will be required each month up to a maximum of €135,800 in any month
Closing cash shortage is €4,850.

(ii)

The Capital Budget deals with planned capital expenditure for example the purchase of a fixed asset and planned capital receipts for example the sale of a fixed asset.
Decisions regarding capital items are the responsibility of the Board of Directors.
Carrying out of the capital budget is the responsibility of the Financial Controller.