Question 8

(a)

58

		€	€	€ per unit
Sales	(16,000 units)		480,000	30.00
Less Variable Costs				
Direct materials		120,000		
Direct wages		110,000		
Factory overhead		20,000		
Administration overhead		40,000	(290,000)	(18.125)
Contribution			190,000	11.875
Less Fixed Costs				
Factory overhead		40,000		
Administration overhead		65,000	(105,000)	
Net Profit			85,000	

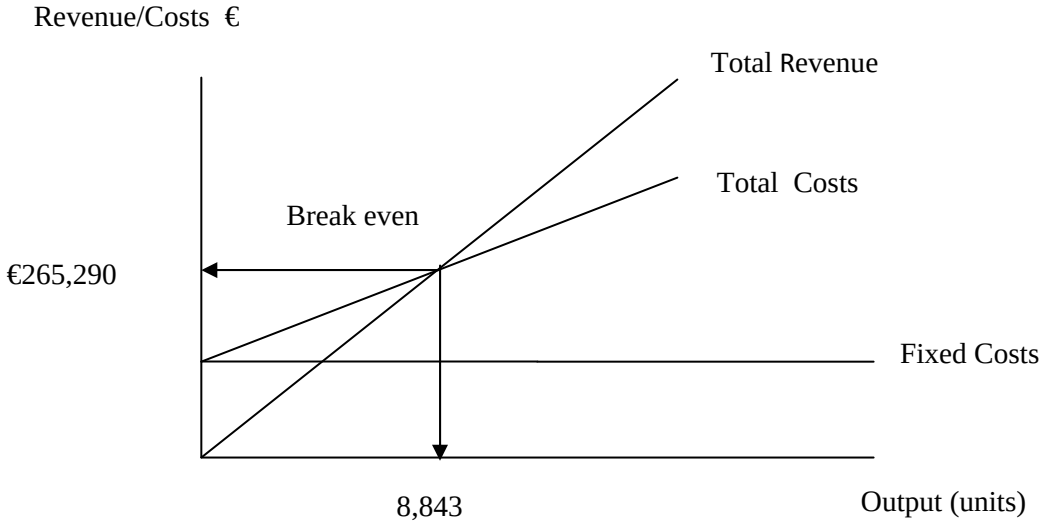
(i)

Break even point Fixed Costs / CPU = 105,000 **[3]** / 11.875 **[4]** = **[3] 8,843 units**

Margin of safety Sales – Break even point

[2] 16,000 – 8,843 **[2]** = **[2] 7,157 units**

(ii) Break even chart [8]



(iii) Profit from reduced selling price

		€
Sales	(19,000 x 28.50)	541,500 **[3]**
Less Variable costs	(19,000 x 18.125)	(344,375) **[3]**
Contribution		197,125
Less Fixed costs	(105,000 + 5,000)	(110,000) **[3]**
Profit		87,125 **[1]**

(iv) **Fixed Costs** / **Contribution – 20% of S.P.** **[2]** 105,000 / **[4]** 7.875 – 5.2 **[4]** = **[2] 39,253 units**

(v) The profit they would make from Selling Price of €34

Sales	(17,000 x 34)	578,000 **[2]**
Less Variable costs	(17,000 x 18.125 + 1.70 +1)	(354,025) **[6]**
Contribution		223,975
Less Fixed Costs		(105,000) **[2]**
Profit		118,975 **[2]**

(b) **22**

(i)

Absorption Costing

Sales	(9,000 x 4)		36,000 **[1]**
Less production Cost (10,000 units)			
Direct Materials	(10,000 x €0.60)	6,000 **[1]**	
Direct Labour	(10,000 x €0.50)	5,000 **[1]**	
Variable Overhead	(10,000 x €0.40)	4,000 **[1]**	
Fixed Overhead		4,000 **[1]**	
		19,000	
Less Closing Stock (1/10 x 19,000)		(1,900) **[1]**	(17,100)
Profit			**18,900**

Marginal Costing

Sales	(9,000 x 4)		36,000 **[1]**
Less Production Cost (10,000 units)			
Direct Materials	(10,000 x 0.60)	6,000 **[1]**	
Direct Labour	(10,000 x 0.50)	5,000 **[1]**	
Variable Overhead	(10,000 x 0.40)	4,000 **[1]**	
		15,000	
Less Closing Stock (1/10 x 15,000)		(1,500) **[1]**	(13,500)
Contribution **[1]**			22,500
Less Fixed overheads			(4,000) **[1]**
Profit			**18,500**

(ii)

[6]

There is a difference in the profit figures because closing stock is valued differently.
Closing stock under marginal costing is valued lower than under absorption costing.
When costing a product, marginal costing does not include fixed costs whereas in absorption costing the fixed costs are included. Therefore a share of fixed costs is included in the value of stock under absorption costing and not included under marginal costing.
Under absorption costing, closing stock is valued at a 1/10 of the production cost of €19,000
Under marginal costing, closing stock is valued at a 1/10 of the variable cost of €15,000

Closing Stock – Absorption Costing	1,900	
Closing Stock – Marginal Costing	(1,500)	
Difference		400

The profit difference is 18,900 – 18,500 = **400**

[3]

Absorption costing should be used as it agrees with standard accounting practice and concepts and also matches costs with revenues.

Question 9

80

(a)

Sales Budget	**Micro**	**Excel**	
Expected sales in units	11,000	6,500	
Expected selling price per unit	€240	€300	
Budgeted sales revenue	€2,640,000	€1,950,000	€4,590,000

Production budget		**Micro Units**	**Excel Units**
Required by sales	**[6]**	11,000	6,500
Add Closing stock (80% of opening stock)	**[6]**	640	440
		11,640	6,940
Less Opening stock	**[4]**	(800)	(550)
Budgeted production in units		**10,840**	**6,390**

(b) Raw Materials Purchases Budget

		Material X Kgs		**Material Y Kgs**		
Required by production –						
Micro	(10,840 x 6)	65,040	**[2]**	54,200	**[2]**	(10,840 x 5)
Excel	(6,390 x 4)	25,560	**[2]**	44,730	**[2]**	(6,390 x 7)
		90,600		98,930		
Add Closing stock (80% of opening stock)		5,600	**[2]**	4,000	**[2]**	
		96,200		102,930		
Less Opening stock		(7,000)	**[2]**	(5,000)	**[2]**	
Required purchases of raw materials in Kg's		89,200		97,930		
Purchase Price		€2	**[2]**	€4	**[2]**	
Purchase cost		**€178,400**		**€391,720**		**€570,120**

(c) Production Cost/Manufacturing Budget

Cost of raw materials consumed:		**€**	**€**	
Opening stock of raw materials				
X	(7,000 x 1.80)	12,600		
Y	(5,000 x 3.60)	18,000	30,600	**[4]**
Purchases	(178,400 + 391,720)		570,120	**[2]**
			600,720	
Less Closing stock of raw materials				
X	(5,600 x 2)	11,200		
Y	(4,000 x 4)	16,000	(27,200)	**[4]**
			573,520	
Cost of Labour	(10,840 x 7 x 12)	910,560		
	(6,390 x 8 x 12)	613,440	1,524,000	**[4]**
Variable overheads	(10,840 x 7 x5)	379,400		
	(6,390 x 8 x 5)	255,600	635,000	**[4]**
Fixed overheads			180,400	**[2]**
Cost of manufacture			**2,912,920**	**[3]**

(d) Budgeted Trading Account

			€	€
Sales of finished goods	(2,640,000 + 1,950,000)			4,590,000 **[2]**
Opening stock of finished goods				
Micro	(800 x 130)	104,000		
Excel	(550 x 150)	82,500	186,500 **[2]**	
Cost of Manufacture			2,912,920 **[2]**	
			3,099,420	
Less Closing stock of finished goods				
Micro	(640 x 160)	102,400		
Excel	(440 x 184)	80,960	(183,360) **[4]**	(2,916,060)
Gross Profit				1,673,940 **[3]**

(e)

[6]

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.

A cash budget will anticipate periods when the organization will have cash surpluses and will enable it to arrange short term investments.

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.

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.

[2]

Principal Budget Factor: Apart from sales demand the principal budget factor could also be:
Availability of materials
Availability of labour
Capacity of the plant
Availability of capital