

9. Production Budgeting

(80)

(a) Prepare a Cash Budget for the six months July to December 2015. (61)

for Dale Ltd for July to December 2015						
	July	Aug.	Sept.	Oct.	Nov.	Dec.
	€	€	€	€	€	€
Receipts						
Cash Sales receipts	151,050 (1)	156,750 (1)	168,150 (1)	176,700 (1)	185,250 (1)	193,800 (1)
Credit Sales receipts (1 month)	–	222,600 (1)	231,000 (1)	247,800 (1)	260,400 (1)	273,000 (1)
Credit Sales receipts (2 months)	–	–	148,400 (1)	154,000 (1)	165,200 (1)	173,600 (1)
Total	<u>151,050</u>	<u>379,350</u>	<u>547,550</u>	<u>578,500</u>	<u>610,850</u>	<u>640,400</u>
Payments						
Purchases (1 month)	–	116,400 (1)	121,250 (1)	135,800 (1)	150,350 (1)	169,750 (1)
Purchases (2 months)	–	–	120,000 (1)	125,000 (1)	140,000 (1)	155,000 (1)
Wages	45,000 (1)	45,000 (1)	45,000 (1)	45,000 (1)	45,000 (1)	45,000 (1)
Variable Overheads	159,000 (1)	165,000 (1)	177,000 (1)	186,000 (1)	195,000 (1)	204,000 (1)
Fixed Overheads W1	48,750 (1)	48,750 (1)	48,750 (1)	48,750 (1)	48,750 (1)	48,750 (1)
Equipment	–	60,000 (1)	–	–	–	–
Loan Instalments	–	–	1,500 (1)	1,500 (1)	1,500 (1)	1,500 (1)
Interest W3	–	360 (1)	350 (1)	340 (1)	330 (1)	320 (1)
Total	<u>252,750</u>	<u>435,510</u>	<u>513,850</u>	<u>542,390</u>	<u>580,930</u>	<u>624,320</u>
Net Cash	•(101,700)(1)	•(56,160)(1)	•33,700 (1)	•36,110 (1)	•29,920 (1)	•16,080 (1)
Bank Loan		54,000 (1)				
Opening Balance		(101,700)	(103,860)	(70,160)	(34,050)	(4,130)
Closing Balance	<u>(101,700)</u>	<u>(103,860)</u>	<u>(70,160)</u>	<u>(34,050)</u>	<u>(4,130)</u>	<u>•11,950 (2)</u>

- Allow full marks for student's own figure if consistent with previous work.
- Accept correct figure only.

(b) Prepare a Budgeted Profit and Loss Account for the six months ended 31/12/2015. (13)

Budgeted Profit and Loss Account for Dale Ltd		
for the six months ended 31/12/2015		
	€	€
Sales		3,620,000 (1)
<i>Less</i> Cost of Sales		
Purchases	1,820,000 (1)	
Labour	270,000 (1)	
Variable Overheads	•1,086,000 (1)	
Fixed Overheads	•292,500 (1)	(3,468,500)
Gross Profit		<u>151,500</u>
<i>Less</i> Depreciation: Equipment W2		
	•6,250 (1)	
Discount Allowed W4	54,300 (2)	(60,550)
		90,950
<i>Add</i> Discount Received W5		<u>21,450 (2)</u>
		112,400
<i>Less</i> Interest		<u>(1,700)(1)</u>
Profit		<u>•110,700 (2)</u>

- Allow full marks for student's own figure if consistent with previous work.
- Accept correct figure only.
- Allow 1m for correct words if figure incorrect or omitted.

9. Production Budgeting (cont'd.)

Workings:		€		€	
W1	Fixed Overheads	50,000	W4	Discount Allowed	
	– Depreciation of equip. per month			July [5% × (30% × €530,000)]	7,950
	Value w/o [$\frac{1}{4}$ of €60,000 × 1/12]	<u>1,250</u>		Aug. [5% × (30% × €550,000)]	8,250
	Net Figure	48,750		Sept. [5% × (30% × €590,000)]	8,850
				Oct. [5% × (30% × €620,000)]	9,300
				Nov. [5% × (30% × €650,000)]	9,750
W2	Depreciation of Equipment			Dec. [5% × (30% × €680,000)]	<u>10,200</u>
	Value w/o [$\frac{1}{4}$ of €60,000 × 5/12]	<u>6,250</u> (1)			54,300 (2)
	Figure transferred to Profit & Loss a/c	6,250		<u>or</u>	
				July-Dec. [5% × (30% × €3,620,000)]	54,300 (2)
W3	Loan Interest payable		W5	Discount Received	
	Aug. [8% of €54,000 × 1/12]	360 (1)		Aug. [3% × (50% × €240,000)]	3,600
	Sept. [8% of €52,500 × 1/12]	350 (1)		Sept. [3% × (50% × €250,000)]	3,750
	Oct. [8% of €51,000 × 1/12]	340 (1)		Oct. [3% × (50% × €280,000)]	4,200
	Nov. [8% of €49,500 × 1/12]	330 (1)		Nov. [3% × (50% × €310,000)]	4,650
	Dec. [8% of €48,000 × 1/12]	320 (1)		Dec. [3% × (50% × €350,000)]	<u>5,250</u>
					21,450 (2)
				<u>or</u>	
				July-Nov.	
				[3% × (50% × (€1,820,000 – 390,000))]	21,450 (2)

(c) Explain **three** reasons for preparing a flexible budget. (6)

Any 3: (3 × 2)

- to compare budgeted costs and actual costs at the same activity level / to show whether actual costs were exceeded or were less than budgeted costs (variances) //
- to compare like with like / to use as a bench-mark against which to measure actual costs //
- to adjust budgeted costs to the actual activity level //
- to help in controlling costs or to plan product levels // etc.

** Accept other appropriate answers.