Question 9

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(a)

Production Budget									
	July		**Aug**		**Sept**		**Oct**		**Nov**
Sales	9,000	[1]	9,750	[1]	11,000	[1]	12,000	[1]	12,500
Add Closing stock	5,850	[1]	6,600	[1]	7,200	[1]	7,500	[1]	7,680
	14,850		16,350		18,200		19,500		20,180
Less Opening stock	-------		(5,850)	[1]	(6,600)	[1]	(7,200)	[1]	(7,500)
Required for production	14,850		10,500		11,600		12,300		12,680

(b)

Raw Materials Purchases Budget									
	July		**Aug**		**Sept**		**Oct**		**Nov**
Units of production	14,850	[½]	10,500	[½]	11,600	[½]	12,300	[½]	12,680
Materials per unit	× 3	[½]	× 3		× 3		× 3		× 3
Required for production	44,550	[½]	31,500	[½]	34,800	[½]	36,900	[½]	38,040
Add Closing stock	6,300	[½]	6,960	[½]	7,380	[½]	7,608	[1]	
Less Opening stock	-------		(6,300)	[½]	(6,960)	[½]	(7,380)	[½]	
Required for purchases	50,850	[½]	32,160	[½]	35,220	[½]	37,128	[½]	
Price per kg	× 4	[½]	× 4		× 4		× 4		
Cost of raw materials	€203,400	[½]	€128,640	[½]	€140,880	[½]	€148,512	[½]	

Total purchases €621,432

(c)

Cash Budget								
Receipts	**July**		**August**		**September**		**October**	
Cash sales	81,000	[1]	87,750	[1]	99,000	[1]	108,000	[1]
Credit sales 1 month			94,500	[1]	102,375	[1]	115,500	[1]
Credit sales 2 month					94,500	[1]	102,375	[1]
	81,000		182,250		295,875		325,875	
Payments								
Purchases			203,400	[1]	128,640	[1]	140,880	[1]
Wages	23,500	[1]	24,625	[1]	26,500	[1]	28,000	[1]
Variable overheads	59,400	[1]	42,000	[1]	46,400	[1]	49,200	[1]
Fixed overheads	27,000	[1]	27,000		27,000		27,000	
Equipment	60,000	[1]						
Loan repayments			1,000	[1]	1,000		1,000	
Interest			400	[1]	400		400	
	169,900		298,425		229,940		246,480	
Net monthly cash flow	(88,900)	[1]	(116,175)	[1]	65,935	[1]	79,395	[1]
Loan	48,000	[1]						
Opening cash balance			(40,900)	[1]	(157,075)	[1]	(91,140)	[1]
Closing cash balance	(40,900)		(157,075)		(91,140)		(11,745)	[2]

(d) Budgeted Trading and Profit and Loss Account for the 4 months ended 31/10/2016

	€		€		€	
Sales					1,252,500	[1]
Less cost of sales						
Opening stock			-----			
Purchases			621,432	[1]		
			621,432			
Closing stock - finished goods (7,500 × €20)	150,000	[1]				
- raw materials (7,608 × €4)	30,432	[1]	(180,432)		(441,000)	
Gross Profit					811,500	
Less Expenses						
Wages			102,625	[1]		
Variable overheads			197,000	[1]		
Fixed overheads			108,000	[1]		
Depreciation			4,000	[1]	(411,625)	
Operating profit					399,875	
Less interest					(1,200)	[1]
Net profit					398,675	[4]

(e) **[9]**

(i) Recommendations

1. Reduce requirement for closing stock of finished goods, particularly in earlier months to reduce the costs of production.
2. Negotiate a lower price than the €4 per kg, from suppliers when buying raw materials and this will reduce cash expenditure.
3. Encourage debtors to pay earlier by offering discounts for early payment/reduce the period of credit allowed from 2 months to one month, which will increase receipts.
4. Postpone the purchase of equipment in July and instead lease the equipment. This will reduce the deficit in July by €12,000 (€60,000 – €48,000) and by the interest and loan repayments €1,400 thereafter.

(ii)

1. Market research and trends/opinion of sales representatives may be a reliable indicator of potential sales.
2. What is the price to be charged for the product or service?
3. Is the level of competition in the market place intense or not?
4. Is the economy expected to grow over the coming months?