

9. Budgeting

Houghton Ltd is planning to set up a business on 01/07/2020 and has made the following forecast for the first six months of trading:

	July	August	September	October	November	December
Sales units	11,400	11,600	11,800	11,900	12,200	12,400

Sales price per unit is €50.

- (i) Stocks of finished goods are maintained at 60% of the following month's sales requirement.
- (ii) Each product unit requires 4 kg of material X, which costs €3 per kg.
- (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 and a cash discount of 5% will be allowed.
 - Credit Customers** 60% of sales revenue will be from credit customers. These debtors will pay their bills in the 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 €20,000 plus 10% of sales revenue per month, payable as incurred.
Variable overheads €12 per unit, payable as incurred.
Fixed overheads (including depreciation) €20,000 per month, payable as incurred.
 - Capital Costs** Equipment will be purchased on 1 July 2020 costing €108,000 which will have a useful life of 5 years.
To finance this purchase, a loan of €96,000 will be secured at 6% per annum.
The capital sum is to be repaid in 48 equal monthly instalments.
The interest for each month is to be paid on the last day of the month based on the amount of the loan outstanding at that date.
Both capital repayments and interest payments commence on 31 August.

Required:

- (a) Prepare a production budget for Houghton Ltd for the four months July to October 2020.
- (b) Prepare a raw materials purchases budget (in units and €) for Houghton Ltd for the four months July to October 2020.
- (c) Prepare a cash budget for Houghton Ltd for the four months July to October 2020.
- (d) Prepare a budgeted trading and profit and loss account for Houghton Ltd for the four months ending 31/10/2020 (if the budgeted cost of a unit of finished goods is €30).
- (e) (i) What useful information is available to Houghton Ltd from the cash budget?
(ii) Explain what is meant by a master budget.

(80 marks)