

**Q.9 Production and Cash Budgeting**

11

(a)

Production Budget									
	July		August		Sept.		Oct.		Nov.
Sales	11,400	[1]	11,600	[1]	11,800	[1]	11,900	[1]	12,200
Add closing stock	6,960	[1]	7,080	[1]	7,140	[1]	7,320	[1]	7,440
Less opening stock	<u>0</u>		<u>(6,960)</u>	[1]	<u>(7,080)</u>	[1]	<u>(7,140)</u>	[1]	<u>(7,320)</u>
Required for production	18,360		11,720		11,860		12,080		12,320

(b)

13

Raw Materials Purchases Budget									
	July		August		Sept.		Oct.		Nov.
Units of production	18,360	[½]	11,720	[½]	11,860	[½]	12,080	[½]	12,320
Materials per unit	<u>4</u>	[½]	<u>4</u>		<u>4</u>		<u>4</u>		<u>4</u>
<b>Required for production</b>	<b>73,440</b>	[½]	<b>46,880</b>	[½]	<b>47,440</b>	[½]	<b>48,320</b>	[½]	<b>49,280</b>
Add closing stock (20%)	9,376	[½]	9,488	[½]	9,664	[½]	9,856	[½]	
Less opening stock	<u>0</u>		<u>(9,376)</u>	[½]	<u>(9,488)</u>	[½]	<u>(9,664)</u>	[½]	
<b>Required for Purchases in kg</b>	<b>82,816</b>	[½]	<b>46,992</b>	[½]	<b>47,616</b>	[½]	<b>48,512</b>	[½]	
Price per kg	<u>€3</u>	[½]	<u>€3</u>		<u>€3</u>		<u>€3</u>		
<b>Cost of/Purchases Raw Materials in €</b>	<b>248,448</b>	[½]	<b>140,976</b>	[½]	<b>142,848</b>	[½]	<b>145,536</b>	[1]	

(c)

Cash Budget								
Receipts	July		August		September		October	
Cash sales	216,600	[1]	220,400	[1]	224,200	[1]	226,100	[1]
Credit sales	<u>0</u>		<u>342,000</u>	[1]	<u>348,000</u>	[1]	<u>354,000</u>	[1]
	<b><u>216,600</u></b>		<b><u>562,400</u></b>		<b><u>572,200</u></b>		<b><u>580,100</u></b>	
Payments								
Purchases	0		248,448	[1]	140,976	[1]	142,848	[1]
Wages	77,000	[1]	78,000	[1]	79,000	[1]	79,500	[1]
Variable overheads	220,320	[1]	140,640	[1]	142,320	[1]	144,960	[1]
Fixed overheads	18,200	[1]	18,200		18,200		18,200	
Equipment	108,000	[1]						
Loan repayments			2,000	[2]	2,000		2,000	
Interest	<u>      </u>		<u>480</u>	[1]	<u>470</u>	[1]	<u>460</u>	[1]
	<b><u>423,520</u></b>		<b><u>487,768</u></b>		<b><u>382,966</u></b>		<b><u>387,968</u></b>	
<b>Net monthly cash flow</b>	<b>(206,920)</b>	<b>[1]</b>	<b>74,632</b>	<b>[1]</b>	<b>189,234</b>	<b>[1]</b>	<b>192,132</b>	<b>[1]</b>
Loan	96,000	[1]						
Opening cash balance	<u>0</u>		<u>(110,920)</u>	[1]	<u>(36,288)</u>	[1]	<u>152,946</u>	[1]
Closing cash balance	(110,920)		(36,288)		152,946		345,078	[2]

(d)

15

Budgeted Trading and Profit and Loss Account for the 4 months ended 31/10/2020						
Sales				2,335,000		[1]
<b>Less Cost of Sales</b>						
Opening stock			0			
Purchases			677,808		[1]	
Closing stock						
Finished goods	Units	7,320	[1]			
	Cost	€30	[1]	219,600		
Raw materials	Units	9,856	[1]			
	Cost	€3	[1]	<u>29,568</u>	<u>(249,168)</u>	<u>(428,640)</u>
<b>Gross Profit</b>					1,906,360	
<b>Less Expenses</b>						
Discount				46,700	[2]	
Wages				313,500	[1]	
Variable overheads				648,240	[1]	
Fixed overheads				72,800	[1]	
Depreciation				<u>7,200</u>	[1]	<u>(1,088,440)</u>
Operating profit					817,920	
Less interest					<u>(1,410)</u>	[1]
<b>Net profit</b>					<u>816,510</u>	[2]

(e)

6

- (i) In July and August the company has a maximum cash deficit of €110,920. The company needs to arrange a bank overdraft of €110,920 or else take corrective action by leasing the equipment, saving €12,000, or extending the period of credit received from one month to two months. The company could also try and get customers to buy more goods for cash rather than credit.

This shortfall is eliminated in September and October with a cash surplus at the end of October of €345,078. This could be used to purchase new fixed assets increasing the productive capacity of the firm or purchase investments which increase investment income and profit.

- (ii) **Master Budget**

A master budget is a summary of all the other budgets and provides an overview of the operations for the planned period.

For example; a manufacturing budget, a sales budget, a cash budget.