

9. Budgeting

Harrington Ltd has recently completed its annual sales forecast for the year ended 31/12/2023. It expects to sell two products – Golden at €360 and Portland at €410. All stocks are to be decreased by 10% from their opening levels by 31/12/2023 and are valued using the FIFO method.

	Golden	Portland
Sales are expected to be:	15,200 units	8,400 units

Stocks of finished goods on 01/01/2023 are expected to be:

Golden	900 units at €210 each
Portland	750 units at €290 each

Both products use the same raw materials and skilled labour but in different quantities per unit as follows:

	Golden	Portland
Material A	6 Kgs	8 Kgs
Material B	9 Kgs	12 Kgs
Skilled Labour	6 Hours	9 Hours

Stock of raw materials on 01/01/2023 are expected to be:

Material A	9,400 Kgs @ €5.00 per Kg
Material B	6,800 Kgs @ €6.50 per Kg

The expected prices for raw materials during 2023 are:

Material A	€5.50 per Kg
Material B	€7.00 per Kg

The skilled labour rate is expected to be €18.00 per hour.

Production overhead costs are expected to be:

Variable	€12.00	per skilled labour hour
Fixed	€579,550	per annum

Required:

- (a) Prepare a production budget (in units).
- (b) Prepare a raw materials purchases budget (in kg and €).
- (c) Prepare a production cost/manufacturing budget.
- (d) Prepare a budgeted trading account. (You are required to calculate the unit cost of budgeted closing stock of both products).
- (e)
 - (i) Outline why budgetary control is necessary in an organisation.
 - (ii) In relation to budgets, explain what is meant by a favourable variance and give an example of how it might arise in the direct costs of a manufacturing firm.

(80 marks)