
Production Budgets

Harrington LTD

2022

Step By Step Approach

PART A

Part A is asking you to calculate a production budget in units. This is how many units need to be made for each product. The layout will be the following

A. Sales in units	These figures are usually taken from the question - sales are expected to be.
B. Add Closing stock	<ol style="list-style-type: none"> There will be a certain percentage of stock to be increased/decreased. This will usually be given at the start of the question It will be calculated by using stock of finished goods on the 01.01 and increasing/reducing it by the percentage given at the start of the question
C.	Add the figure for A and B together
D. Less Opening Stock	<ol style="list-style-type: none"> This figure will be given in the question It can be identified by the sentence - 'Stock of finished goods on the 01/01/ xx are expected to be
E. Required for Production	<ol style="list-style-type: none"> Take the figure for D away from the figure calculate for C This figure will be used later on in the questions

Sales

Take these figures from the question

- These figures are taken straight from the question

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

Taken from the question

Tip - Make sure to use the finished goods figures

Closing Stock

An adjustment is needed here

- If the question says the following about closing stock

'all stock are to be decreased by 10% from their opening levies by 31/12/2023 and are valued using FIFO method.'

And

Tip - Make sure to use the finished goods figures

'Stock of finished goods on 01/01/2023 are expected to be'

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

Taken form the question

- This means that at the end of the year the opening stock figure for each product will have decreased by 10%.
- The following workings show you how to calculate the closing stock figure for each product

Exam Tip - Exam Tip - Make sure to look out for if the closing stock will increase or decrease

Workings

Golden

Opening Stock 900 as per question
 Rate of reduction 10% as per question
 900 * 10% = 90

Opening Stock 900
 Reduction 90
 Cl. Stock 810

Portland

Opening Stock 750 as per question
 Rate of reduction 10% as per question
 750 * 10% = 75

Opening Stock 750
 Reduction 75
 Cl. Stock 625

	Golden	Portland
Sales are expected to be	15,200	8,400
Add Closing Stock	810	625
	16,010	9,075

NOTE - Remember to add these two figures together to get the total (15,200 + 810 = 16,010 and 8,400 + 625 = 9,075)

Opening Stock

Take these figures from the question

- The question says the following about the opening stock figures for finished goods

' Stock of finished goods on 01/01/2023 are expected to be'

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

Taken from the question

2. This means that the opening stock figure for Golden is 900 units and for Portland it is 750

	Golden	Portland
Sales are expected to be	15,200	8,400
Add Closing Stock	810	625
	16,010	9,075
Less Opening Stock	900	750

Budget production in units

Take these figures from previous figures (workings)

- The formula to calculate the units needed for production is

$$\text{Sales} + \text{Closing stock} - \text{Opening Stock} = \text{Required for production}$$
- These figures will be used for Part B - Prepare a raw materials purchases budget (in units and €)

Production budget for Harrington Ltd in units		
	Golden	Portland
Sales are expected to be	15,200	8,400
Add Closing Stock	810	625
	16,010	9,075
Less Opening Stock	(900)	(750)
Budget Production in Units	15,110	8,325

NOTE - Remember to take these two figures away from each other to get the total (16,010 - 900 = 15,110 and 9,075 - 750 = 8,325)

NOTE - Remember to include the heading - Production budget for Harrington Ltd

Exam Tip - You can do the workings on the statement or on a calculator - there is no need for the workings

Exam Tip - Make sure to use the figures for finished goods and not raw materials

Tutorial Video



PART B

Part B is asking you to calculate the raw materials purchases budget. This is how much of a certain material is needed each to produce the two products. The units from part A will be used as part of working. The layout is similar to Part A and look like this

A. Required for Production	1. A working will be needed to find out what the total figure is required o the material for each product
B. Add Closing stock	<ol style="list-style-type: none"> 1. There will be a certain percentage of opening stock that will need to be decreased to get the closing stock figure. This will usually be given at the start of the question. 2. Make sure to use the <u>stock of raw materials</u> figure that is given in the question. 3. This stock of raw material figure will be reduce by the percentage to decrease closing stock by.
C. Less Opening Stock	<ol style="list-style-type: none"> 1. This figure will be given in the question 2. Make sure to use the <u>stock of raw materials</u> figure that is given in the question. <p>Tip - This is the same figure that you used in b above to calculate the closing stock figure</p>
D. Forecasted Purchases of Raw Material in Kgs	1. This figure is usually calculate by using the opening stock figure and taking it away from the figure above it
E. Purchase price	<ol style="list-style-type: none"> 1. This figure will usually be given in the question 2. Make sure to use the figure that say the expected prices for raw materials during <i>the year</i> are
F. Forecasted Purchases of Raw Material in €	1. This figure is got by multiplying D by E

Required for production

An adjustment is needed here

- The figures for the budget production in units for both products are taken from part A

Production budget for Harrington Ltd in units		
	Golden	Portland
Budget Production in Units	15,110	8,325

Taken from part A

- In the question it says the following about raw materials

'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

Taken from the question

- Use the following information to complete the working (We are interested in the material figure)
- The working to calculate these figures will look something like this

Workings

Golden

Material A

Production Units	15,110	as per Part A
Required in kgs	<u>* 6</u>	as per question
	90,660	

Material B

Production Units	15,110	as per Part A
Required in kgs	<u>* 6</u>	as per question
	135,990	

PortlandMaterial A

Production Units 8,325 as per Part A
 Required in kgs * 8 as per question
 66,600

Material B

Production Units 8,325 as per Part A
 Required in kgs * 12 as per question
 99,900

	Material A	Material B
A. Required for Production		
Golden	90,660	135,990
Portland	66,600	99,900
	157,260	235,890

NOTE - Remember to add these two figures together to get the total (90,660 + 66,690 = 157,260 and 135,990 + 99,900 = 235,890)

Closing Stock

An adjustment is needed here

- In the question it says
 "all stock are to be decreased by 10% from their opening levels by 31/12/2023"
- Make sure to use the opening stock figure for raw materials that are given in the question.

Stock of raw material on 01/01/2023 are expected to be'

Material A	9,400 Kgs @ €5.50 per Kg
Material B	6,800 Kgs @ €6.50 per Kg

Taken from the question

- The working to calculate these figures will look something like this

Exam Tip - Make sure to use the figures for raw materials and not finished goods

WorkingMaterial A

Opening Stock	9,400	as per question	Opening Stock	9,400
Rate of reduction	<u>10%</u>	as per question	Reduction	<u>940</u>
	940			8,460

Material B

Opening Stock	6,800	as per question	Opening Stock	6,800
Rate of reduction	<u>10%</u>	as per question	Reduction	<u>680</u>
	680			6,120

	Material A	Material B
A. Required for Production		
Golden	90,660	135,990
Portland	66,600	99,900
	157,260	235,890
B. Add closing stock	8,460	6,120
	165,720	242,010

NOTE - Remember to add these two figures together to get the total (157,260 + 8,460 = 165,720 and 235,890 + 6,120 = 242,010)

Opening stock

Take these figures from the question

- The question says the following about the opening stock figures for raw materials

' 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

Taken from the question

- This means that the opening stock figure for raw material for material A is 9,400 kgs and for material B it is 6,800 kgs

	Material A	Material B
A. Required for Production		
Golden	90,660	135,990
Portland	66,600	99,900
	157,260	235,890
B. Add closing stock	8,460	6,120
	165,720	242,010
C. Less Opening Stock	(9,400)	(6,800)

Forecasted purchases of raw material in Kgs

Use the figures in your answer

- To calculate the forecasted purchase of raw material in kgs figure you add the opening stock figure and the previous figure together

	Material A	Material B
A. Required for Production		
Golden	90,660	135,990
Portland	66,600	99,900
	157,260	235,890
B. Add closing stock	8,460	6,120
	165,720	242,010
C. Less Opening Stock	(9,400)	(6,800)
D. Forecasted purchases of raw material in Kgs	156,320	235,210

Purchase Price

Take these figures from the question

- The question says the following about the purchase price for raw materials

'The expected price for raw materials during 2023 are

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

Taken from the question

- Use these figures for the purchase price - Material A €5.50 and Material B €7.00

	Material A	Material B
A. Required for Production		
Golden	90,660	135,990
Portland	66,600	99,900
	157,260	235,890
B. Add closing stock	8,460	6,120
	165,720	242,010
C. Less Opening Stock	(9,400)	(6,800)
D. Forecasted purchases of raw material in Kgs	156,320	235,210
E. Purchase Price	€5.50	€7.00

NOTE - Remember to multiply these two figures to the forecasted of raw materials in € figure

Forecasted Purchases of Raw Materials €

Use the figures in your answer

- To calculate the forecasted purchase of raw material in € figure you multiply the expected price figure and the previous figure

Raw material purchases budget (in units and €) for Harrington Ltd		
	Material A	Material B
A. Required for Production		
Golden	90,660	135,990
Portland	66,600	99,900
	157,260	235,890
B. Add closing stock	8,460	6,120
	165,720	242,010
C. Less Opening Stock	(9,400)	(6,800)
D. Forecasted purchases of raw material in Kgs	156,320	235,210
E. Purchase Price	€5.50	€7.00
F. Forecasted purchase of raw material in €	859,760	1,646,470

NOTE - Remember to include the heading - Raw material purchases budget (in units and €) for Harrington Ltd

Tutorial Video



PART C

Part C is asking you to Prepare a production cost / manufacturing budget. The layout for this is the same layout as a manufacturing account and will look like the following

Manufacturing budget for Harrington Ltd for year ended 31.12.23		
Direct Materials		
Opening stock raw materials		x
Add Purchase of raw materials		x
		x
Less Closing stock raw materials		(x)
Cost of raw materials consumed		x
Direct Labour		
Cost of labour		x
Variable Overheads		
Variable Overhead		x
Fixed Overheads		
Fixed Overheads		x
Cost of Manufacture		x

Opening stock raw materials

An adjustment is needed here

1. We need to calculate the total figure in euros for opening stock of raw materials
2. To do this we will need a working using the information for raw material - units and price per kgs
3. The question says the following about raw materials

'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

Taken from the question

Workings**Material A**

Kgs	9,400	Taken from the question
Price per Kgs	(x) €5.00	Taken from the question
	€47,000	Opening stock raw materials

Exam Tip - Make sure to use the price for the start of the year - 01/01/23

Material B

Kgs	6,800	Taken from the question
Price per Kgs	(x) €6.50	Taken from the question
	€44,200	Opening stock raw materials

Direct Materials		
<u>Opening stock raw materials</u>		
Material A	47,000	
Material B	44,200	

NOTE - Remember to add these two figures together to get the total (47,000 + 44,200 = 91,200)

Purchases raw materials

Use the figures from Part B

1. The figure for purchases raw material has already been calculated in Part B
2. Use the total figure for material A - 859,760 and material B - 1,646,470

Direct Materials		
<u>Opening stock raw materials</u>		
Material A	47000	
Material B	44,200	91,200
<u>Add Purchase of raw materials</u>		
Material A	859,760	
Material B	1,646,470	2,506,230

NOTE - Remember to add these two figures together to get the total (859,760 + 1,646,470 = 2,506,230)

Closing stock raw materials

An adjustment is needed here

1. We need to calculate the total figure in euros for closing stock of raw materials
2. To do this we use the figure for closing stock that has been calculated in part B - material A 8,460 and material B 6,120
3. The question says the following about raw materials

'the expected prices of raw materials during 2023 are'

Material A	€5.00 per Kg
Material B	€7.00 per Kg

Taken from the question

Workings**Material A**

Kgs	8,460	Taken from Part B
Price per Kgs	<u>(x) €5.50</u>	Taken from the question
	€46,530	Closing stock raw materials

Material B

Kgs	6,120	Taken from the question
Price per Kgs	<u>(x) €7.00</u>	Taken from the question
	€42,840	Opening stock raw materials

Exam Tip - Make use to use the expected price for raw materials during 2023 are

Direct Materials		
<u>Opening stock raw materials</u>		
Material A	47000	
Material B	44,200	91,200
<u>Add Purchase of raw materials</u>		
Material A	859,760	
Material B	1,646,470	2,506,230
<u>Less Closing stock raw materials</u>		
Material A	46,530	
Material B	42,640	(89,370)

NOTE - Remember to add these two figures together to get the total (46,4530 + 42,640 = 89,370). Take the closing stock figure 57,570 away

Cost of raw materials consumer

An adjustment is needed here

- To calculate the cost of raw materials consumer we use the following formula

Total figure for opening stock + total figure for purchases - total figure for closing stock

Direct Materials		
<u>Opening stock raw materials</u>		
Material A	47000	
Material B	44,200	91,200
<u>Add Purchase of raw materials</u>		
Material A	859,760	
Material B	1,646,470	2,506,230
<u>Less Closing stock raw materials</u>		
Material A	46,530	
Material B	42,640	(89,370)
Cost of raw materials consumed		2,508,060

Direct Labour

An adjustment is needed here

- We need to calculate the cost of the direct labour for making the 2 products (Use the units calculated in Part A)
- To do this we will need a working using the information for raw material - skilled labour
- The question says the following about raw materials

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

and

"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

Taken from the question

Workings

Exam Tip - Make use to use hours needed (skilled Labour) and the labour rate per hour

Golden

Budget production in units	15,110	Taken from Part A
Skilled hours needed	<u>(x) 6</u>	Taken from the question
	90,660	Hours needed
Skilled labour rate	<u>(x) €18.00</u>	Taken from the question
	1,631,880	

Portland

Budget production in units	8,325	Taken from Part A
Skilled hours needed	<u>(x) 9</u>	Taken from the question
	74,925	Hours needed
Skilled labour rate	<u>(x) €18.00</u>	Taken from the question
	1,348,650	

Direct Materials		
<u>Opening stock raw materials</u>		
Material A	47000	
Material B	44,200	91,200
<u>Add Purchase of raw materials</u>		
Material A	859,760	
Material B	1,646,470	2,506,230
<u>Less Closing stock raw materials</u>		89,370
Material A	46,530	
Material B	42,840	89,370
Cost of raw materials consumed		2,508,060
Direct Labour		
<u>Cost of labour</u>		
Golden	1,631,880	
Portland	1,348,650	2,980,530

Variable Overheads

An adjustment is needed here

Remember - variable overhead means the more you produce a unit of a product the overheads to produce the product increase.

1. We need to calculate the total variable overheads for making the 2 products (Use the units calculated in Part A)
2. To do this we will still use the information for calculating labour cost but this time we will multiply by the variable rate instead of the skilled labour rate
3. The question says the following about variable overheads

'production overhead costs are expected to be:

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

Taken from the question

and

"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

Taken from the question

Workings**Golden**

Budget production in units	15,110	Taken from Part A
Skilled hours needed	<u>(x) 6</u>	Taken from the question
	90,660	Hours needed
Skilled labour rate	<u>(x) €12.00</u>	Taken from the question
	1,087,920	

Exam Tip - This is the same working as the direct labour working except, we use the variable rate per skilled labour hour

Exam Tip - Make use to use hours needed (skilled Labour) and the variable rate per skilled labour hour

Portland

Budget production in units	8,325	Taken from Part A
Skilled hours needed	<u>(x) 9</u>	Taken from the question
	74,925	Hours needed
Skilled labour rate	<u>(x) €12.00</u>	Taken from the question
	899,100	

Direct Materials		
<u>Opening stock raw materials</u>		
Material A	47000	
Material B	44,200	91,200
<u>Add Purchase of raw materials</u>		
Material A	859,760	
Material B	1,646,470	2,506,230
<u>Less Closing stock raw materials</u>		89,370
Material A	46,530	
Material B	42,840	89,370
Cost of raw materials consumed		2,508,060
Direct Labour		
<u>Cost of labour</u>		
Golden	1,631,880	
Portland	1,348,650	2,980,530
Variable Overheads		
Golden	1,087,920	
Portland	899,100	1,987,020

Fixed Overheads

Take these figures from the question

1. These figures are taken straight from the question
2. The question says the following about fixed overheads

'production overhead costs are expected to be:

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

Taken from the question

3. We use the figure of €579,550 as the fixed overhead figure

Direct Materials		
<u>Opening stock raw materials</u>		
Material A	47000	
Material B	44,200	91,200
<u>Add Purchase of raw materials</u>		
Material A	859,760	
Material B	1,646,470	2,506,230
<u>Less Closing stock raw materials</u>		89,370
Material A	46,530	
Material B	42,840	89,370
Cost of raw materials consumed		2,508,060
Direct Labour		
<u>Cost of labour</u>		
Golden	1,631,880	
Portland	1,348,650	2,980,530
Variable Overheads		
Golden	1,087,920	
Portland	899,100	1,987,020
Fixed Overheads		
Fixed Overheads		579,550

Cost of manufacture

An adjustment is needed here

- To calculate the cost of manufacture we add up the following totals - cost of raw material consumed + cost of labour + variable overheads + fixed overheads

$$2,508,060 + 2,980,530 + 1,987,020 + 579,550 = 8,055,160$$

Production cost/manufacturing budget for Harrington LTD for year ended 31/12/2023		
Direct Materials		
<u>Opening stock raw materials</u>		
Material A	47000	
Material B	44,200	91,200
<u>Add Purchase of raw materials</u>		
Material A	859,760	
Material B	1,646,470	2,506,230
<u>Less Closing stock raw materials</u>		89,370
Material A	46,530	
Material B	42,840	89,370
Cost of raw materials consumed		2,508,060
Direct Labour		
<u>Cost of labour</u>		
Golden	1,631,880	
Portland	1,348,650	2,980,530
Variable Overheads		
Golden	1,087,920	
Portland	899,100	1,987,020
Fixed Overheads		
Fixed Overheads		579,550
Cost of Manufacture		8,055,160

NOTE - Remember to include the heading - Production cost/manufacturing budget for Harrington LTD for year ended 31/12/2023

Tutorial Video



PART D

Part D is asking you to prepare a budget trading account but first you must calculate the closing stock value per unit for each product (Golden and Portland). You will use the same headings as part C but we will be working out the figure per unit and NOT the total figure.

Cost Per Unit

The budget will look like the following

Unit cost per unit closing stock			
	Product 1		Product 2
Direct Materials			
Material A	x		x
Material B	x		x
Direct Labour			
Cost of labour	x		x
Variable Overheads			
Variable Overhead	x		x
Fixed Overheads			
Fixed Overheads	x		x
Cost per unit	x		x

Direct Material

A calculation is needed here

- To find out the figure per unit for direct materials we need to use how much is needed in kgs for material A and material B and multiply it by the cost of this material per Kg
- The information that we need from the question will be as follows

'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

Taken from the question

And

'The expected price for raw materials during 2023 are'

Material A	€5.50 per kg
Material B	€7.00 per kg

Taken from the question

WorkingsGoldenMaterial A

Kgs per unit	6	Taken from question
Price per kg	(x) €5.50	Taken from question
	€33	

Material B

Kgs per unit	9	Taken from question
Price per kg	(x) €7.00	Taken from question
	€63	

PortlandMaterial A

Kgs per unit	8	Taken from question
Price per kg	(x) €5.50	Taken from question
	€44	

Material B

Kgs per unit	12	Taken from question
Price per kg	(x) €7.00	Taken from question
	€84	

	Golden		Portland
Direct Materials			
Material A	33		44
Material B	63		84

Direct Labour

A calculation is needed here

1. To find out the figure per unit for direct labour we need to multiply the skilled hours needed by the skills hours rate
2. The information that we need from the question will be as follows

'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

Taken from the question

And

'The skilled labour rate is expected to be €18.000 per hour'

Workings

Golden

Skilled labour required	6	Taken from question
Skilled labour rate	<u>(x) €18.00</u>	Taken from question
	€108	

Tip - Remember to use the skilled labour hours for both products

Portland

Skilled labour required	9	Taken from question
Skilled labour rate	<u>(x) €18.00</u>	Taken from question
	€162	

	Golden		Portland
Direct Materials			
Material A	33		44
Material B	63		84
Direct Labour			
Cost of labour	108		162

Variable Overheads

A calculation is needed here

- To find out the figure per unit for variable overhead we need to multiply the skilled hours needed by the variable overhead rate per product
- The information that we need from the question will be as follows

'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

Taken from the question

And

'Production overhead costs are expected to be:'

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

Taken from the question

Workings

Golden

Skilled labour required	6	Taken from question
Variable rate per skilled labour hour	(x) <u>€12.00</u>	Taken from question
	€72	

Portland

Skilled labour required	9	Taken from question
Variable rate per skilled labour hour	(x) <u>€12.00</u>	Taken from question
	€108	

Tip - Remember to use the skilled labour hours for both products

	Golden		Portland
Direct Materials			
Material A	33		44
Material B	63		84
Direct Labour			
Cost of labour	108		162
Variable Overheads			
Variable Overhead	72		108

Fixed Overheads

A calculation is needed here

- To find out the figure per unit for fixed overhead we need divide the figure for fixed overheads by the total hours needed to product a unit of Golden and Portland.
- The information that we need from the question will be as follows

Production overhead costs are expected to be:

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

Taken from the question

And

'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

Taken from the question

- Remember the budget production in units will be taken from part A - Golden 15,110 units and Portland 8,325 units

Note - The formula needed is

Fixed overheads

Total Hours

Tip - Total hours = budget production units * skilled labour

Working

	Formula	<u>Fixed overheads</u>
		Total Hours

Total Hours per unit

Golden

Units required	15,110	Taken from Part A
Skilled labour	<u>(*) 6</u>	Taken from question
Total Hours needed	90,660	

Tip - Remember to use the skilled labour hours for both products

Portland

Units required	8,325	Taken from Part A
Skilled labour	<u>(*) 9</u>	Taken from question
Total Hours needed	74,925	

Total hours required for Golden and Portland

$$90,660 + 74,925 = 165,585$$

	Formula	<u>Fixed overheads</u>
		Total Hours

	=	<u>579,550</u>
		165,585

	Fixed Overhead per unit	€3.50
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Golden

Skilled Hours	6	Taken from question
Fixed Overhead per unit	<u>(*) 3.50</u>	Taken from above
Fixed overhead per unit	21	

Tip - Remember to use the skilled labour hours for both products

Portland

Skilled Hours	9	Taken from question
Fixed Overhead per unit	<u>(*) 3.50</u>	Taken from above
Fixed overhead per unit	31.50	

	Golden		Portland
Direct Materials			
Material A	33		44
Material B	63		84
Direct Labour			
Cost of labour	108		162
Variable Overheads			
Variable Overhead	72		108
Fixed Overheads			
Fixed Overheads	21		31.50

Cost per unit

Take the figures from the question

- To calculate the cost per unit figure for Golden and Portland we add the following total figures - Direct materials + direct labour + variable overheads + fixed overheads

Unit cost per unit closing stock			
	Golden		Portland
Direct Materials			
Material A	33		44
Material B	63		84
Direct Labour			
Cost of labour	108		162
Variable Overheads			
Variable Overhead	72		108
Fixed Overheads			
Fixed Overheads	21		31.50
Cost per unit	297.00		429.50

Budget Trading Account

The second part of Part D is to prepare the budget trading account is the same layout as Question 1 and will look something like this. Remember to use the closing stock figure per unit from the above working

Budget trading account for Harrington LTD for year ended 31/12/2023		
Sales		x
<u>Less Cost of Sales</u>		
Opening stock	x	
Add Cost of manufacturing	x	
	x	
Less Closing Stock	x	(x)
Gross Profit		x

Sales

A calculation is needed here

1. To calculate the sales revenue figure for the trading account we need to use the expected units to be sold and multiply it by the price to be charged for each product
2. This information will usually be given at the start of the question
3. The information that we need from the question will be as follows

'It expects to sell two products - Golden at €360 and Portland at €410'

And

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

Working

Golden

Expected Sales	15,200	taken from question
Selling Price	<u>€360</u>	taken from question
	€5,472,000	Sale revenue for Golden

Portland

Expected Sales	8,400	taken from question
Selling Price	<u>€410</u>	taken from question
	€3,444,000	Sale revenue for Golden

Total Sales Revenue

Golden	€5,472,000	see working above
Portland	<u>€3,444,000</u>	see working above
Total	€8,916,000	Total sale revenue figure

Sales			8,916,000
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Opening Stock

A calculation is needed here

- To calculate the total opening stock figure for the trading account we needed to use the opening stock figure in the question and multiply it by the value of the opening stock
- The information that we need from the question will be as follows

'stock of finished good on 01/01/2023 are expected to be:'

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

WorkingGolden

Expected opening stock	900	taken from question
Value of opening stock	(*) <u>€210</u>	taken from question
	€189,000	Opening stock value Golden

Portland

Expected opening stock	750	taken from question
Value of opening stock	(*) <u>€290</u>	taken from question
	€217,500	Opening stock value Golden

Tip - Remember to use the figure for finished goods and not raw materials

Total opening stock figure

Golden	€189,000	see working above
Portland	<u>€217,500</u>	see working above
Total	€406,500	Total opening stock figure

Sales			8,916,000
<u>Less Cost of Sales</u>			
Opening stock		406,500	

Purchases (Cost of manufacture)
--

Take these figures from part C

- The figure for purchases (cost of manufacture) is already calculate as part of Part C -
€8,055,160

Sales			8,916,000
<u>Less Cost of Sales</u>			
Opening stock		406,500	
Add Cost of Manufacture		(+) 8,055,160	
		8,461,660	

Note - Remember to add the opening stock figure and the cost of manufacture figure together
 $€406,500 + €8,055,160 = €8,461,660$

Closing Stock

A calculation is needed here

- To calculate the closing stock figure we use the closing stock figures from Part A
(Golden - 810 and Portland - 675)
- We then multiply these figures by the cost per unit figure for both products. These
were calculate at the start of this part (Part D)

WorkingGolden

Closing stock	810	taken from Part A
Cost per unit	<u>(*) €297</u>	Calculate at the start of this part (Part D)
	€240,570	Closing stock value Golden

Portland

Closing stock	675	taken from Part A
Cost per unit	<u>(*) €429.50</u>	Calculate at the start of this part (Part D)
	€289,013.50	Closing stock value Golden

Total closing stock figure

Golden	€240,570.00	see working above
Portland	<u>€289,013.50</u>	see working above
Total	€530,482.50	Total opening stock figure

Sales			8,916,000
<u>Less Cost of Sales</u>			
Opening stock		406,500	
Add Cost of Manufacture		(+) 8,055,160	
		8,461,660	
Less Closing Stock		(530,482.50)	7,931,177.50

NOTE - Remember to take the closing stock figure away from the previous figure (€8,461,660 - €530,482.50)

Gross Profit

Take the figures from the question

- To calculate the Gross Profit figure for Golden and Portland take these two figure away from each other 8,926,000 - 7,931,177.50

Budget trading account for Harrington Ltd for year ended 31.12.2023			
Sales			8,916,000
<u>Less Cost of Sales</u>			
Opening stock		406,500	
Add Cost of Manufacture		(+) 8,055,160	
		8,461,660	
Less Closing Stock		(530,482.50)	7,931,177.50
Gross Profit			984,822.50

NOTE - Remember to include the heading - Budgeted Trading account Harrington Ltd for year ended 31.12.23

Tutorial Video**PART E**

This is the theory part of the question and includes the following

(i) Outline why budgetary control is necessary in an organisation

1. Budgets are a road map for a business and help them to achieve their objectives
2. It provides direction and motivation to staff to help them achieve their targets
3. To help identify future costs and revenue in order to plan cash inflows and control costs
4. To help production level to be achieved by preparing a raw materials budget
5. To ensure that there is enough staff in all areas so that order will be meet
6. To ensure that resources are use effectively and to be capable to changing in circumstances
7. To compare budget figure with actual figures and identify variances

(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

A favourable variance occurs when actual cost are less that budget costs.

A favourable cost might arise for the following reasons

1. The purchase of raw materials is less than expected because of economics of scale or discounts on early payments
2. Less labour wages were required due to improved productivity from employees
3. Hire cost of special equipment is less than expected due to a surplus of equipment on the rental market
4. Patent royalties costs are less than anticipated due to the patents coming close to their retirement date

Tutorial Video

