Accounting Leaving Certificate Higher Level

Past Exam Questions on:

Production Budgeting

Q9 2013

9. Budgeting

Murray Ltd is preparing to set up business on 1/1/2014 to manufacture a single product. Below is the sales budget for the company for the first 6 months of 2014.

Sales Budget

	January	**February**	**March**	**April**	**May**	**June**
Sales units	7,000	8,000	10,000	9,000	10,500	11,000
Sales Revenue	€210,000	€240,000	€300,000	€270,000	€315,000	€330,000

(i) Each product unit requires 5 kgs of material X, which costs €2.00 per kg.

(ii) Stocks of finished goods are maintained at 70% of the following month's sales requirement.

(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.

Credit Customers — 60% of sales revenue will be from credit customers. These debtors will pay their bills, 50% in the month after sale and the remainder in the second 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 €25,000 per month, payable as incurred.
Variable overheads €5 per unit, payable as incurred.
Fixed overheads (including depreciation) €30,000 per month, payable as incurred.

Capital Costs — Equipment will be purchased in January costing €45,000 which will have a useful life of 5 years. To finance this purchase a loan of €30,000 will be secured at 10% per annum. Interest to be paid monthly, but capital loan repayments will not commence until July 2014.

Required:

(a) Prepare a Production Budget for the four months January to April, 2014.

(b) Prepare a Raw Materials Purchases Budget (in units and €) for the four months January to April, 2014.

(c) Prepare a Cash Budget for the 4 months January to April, 2014.

(d) Prepare a budgeted Trading and Profit and Loss Account for the 4 months ending 30/4/2014 (if the budgeted cost of a unit of finished goods is €25).

(e) (i) What useful information is available to Murray Ltd from the completed cash budget?
(ii) Explain what is meant by a Capital budget.

(80 marks)

Q9 2011

9. Budgeting

O'Connor Ltd has recently completed its annual sales forecast to December 2012. It expects to sell two products – Light at €280 and Extra Light at €320.

All stocks are to be reduced by 10% from their opening levels by the end of 2012 and are valued using the FIFO method.

	Light	Extra Light
Sales are expected to be	12,000 units	3,500 units

Stocks of finished goods on 1/1/2012 are expected to be:

Light	650 units at €200 each
Extra Light	500 units at €220 each

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

	Light	Extra Light
Material A	8 kgs	6 kgs
Material B	9 kgs	7 kgs
Skilled labour	8 hours	9 hours

Stocks of raw materials on 1/1/2012 are expected to be:

Material A	6000 kgs @ €3.50 per kg
Material B	4000 kgs @ €5.00 per kg

The expected prices for raw materials during 2012 are:

Material A	€4.00 per kg
Material B	€5.50 per kg

The skilled labour rate is expected to be €12 per hour.

Production overhead costs are expected to be:

Variable	€4.50	per skilled labour hour
Fixed	€210,500	per annum

Required:

(a) Prepare a Production Budget (in units).

(b) Prepare a Raw Materials Purchases Budget (in units and €).

(c) Prepare a Production Cost/Manufacturing Budget.

(d) Calculate the unit cost of budgeted closing stock of both products.

(e) (i) Explain the term 'Master Budget'.
(ii) List the components of a Master Budget for a manufacturing firm.

(80 marks)

9. Budgeting

Spencer Ltd. has recently completed its annual sales forecast to December 2006. It expects to sell two products – Silver at €140 and Gold at €170.

All stocks are to be reduced by 20% from their opening levels by the end of 2006 and are valued using the FIFO method.

	Silver	**Gold**
Sales are expected to be	8,000 units	3,700 units

Stocks of finished goods on 1/1/2006 are expected to be:

Silver	500 units at €120 each
Gold	400 units at €140 each

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

	Silver	**Gold**
Material 1	6 kgs	4 kgs
Material 2	5 kgs	7 kgs
Skilled labour	6 hours	7 hours

Stocks of raw materials on 1/1/2006 are expected to be:

Material 1	4000 kgs @ €1.80 per kg
Material 2	3000 kgs @ €3.50 per kg

The expected prices for raw materials during 2006 are:

Material 1	€2 per kg
Material 2	€4 per kg

The skilled labour rate is expected to be €12 per hour.

Production overhead costs are expected to be:

Variable	€3 per skilled labour hour
Fixed	€145,480 per annum

You are required to prepare a:

(a) Production Budget (in units).
(b) Raw Materials Purchases Budget (in units and €).
(c) Production Cost/Manufacturing Budget.
(d) Budgeted Trading Account *(if the budgeted cost of a unit of Silver and Gold is €134 and €155 respectively).*
(e) Note on the factors taken into account by Spencer Ltd. in arriving at the expected sales in 2006 of 11,700 units.

(80 marks)

Q9 2008

9. Budgeting

Roche Ltd has recently completed its annual sales forecast to December 2009. It expects to sell two products – Super at €220 and Supreme at €260.

All stocks are to be reduced by 20% from their opening levels by the end of 2009 and are valued using the FIFO method.

	Super	**Supreme**
Sales are expected to be	10,000 units	4,200 units

Stocks of finished goods on 1/1/2009 are expected to be:

Super	600 units at €120 each
Supreme	450 units at €140 each

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

	Super	**Supreme**
Material x	7 kgs	5 kgs
Material y	6 kgs	8 kgs
Skilled labour	7 hours	8 hours

Stocks of raw materials on 1/1/2009 are expected to be:

Material x	5000 kgs @ €2.50 per kg
Material y	3000 kgs @ €4.50 per kg

The expected prices for raw materials during 2009 are:

Material x	€3 per kg
Material y	€5 per kg

The skilled labour rate is expected to be €13 per hour.

Production overhead costs are expected to be:

Variable	€4 per skilled labour hour
Fixed	€204,080 per annum

You are required to prepare a:

(a) Production Budget (in units).

(b) Raw Materials Purchases Budget (in units and €).

(c) Production Cost/Manufacturing Budget.

(d) Budgeted Trading Account *(if the budgeted cost of a unit of Super and Supreme is €180 and €210 respectively)*.

(e) (i) Explain what is meant by a Capital Budget.

(ii) The Principal Budget factor is sales demand in most organisations. State two other items that could also be considered to be the Principal Budget factor.

(80 marks)