

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)