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Resource Sheet – Accounting

Production Budgeting - Student Activity Answers

(Q1) Show how the closing stock of finished goods figures of €247 for Amber and €270 for Sapphire in the question above were calculated.

		Amber		Sapphire
Material P	(7 kgs × €4)	28·00	(5 kgs × €4)	20·00
Material Q	(6 kgs × €5)	30·00	(8 kgs × €5)	40·00
Direct Labour	(9 hrs × €13)	117·00	(10 hrs × €13)	130·00
Variable Overheads	(9 hrs × €5·50)	49·50	(10 hrs × €5·50)	55·00
Fixed Overheads	(9 hrs × *€2·50)	22·50	(10 hrs × *€2·50)	25·00
Cost per Unit		247·00		270·00

$$\text{*Fixed Overheads per Direct Labour Hour} = \frac{476{,}350}{(12{,}910 \times 9 \text{ hrs}) + (7{,}435 \times 10 \text{ hrs})}$$

$$= \frac{476{,}350}{190{,}540}$$

$$= €2{\cdot}50$$

(Q2) State the layout of the following:
(a) **Production Budget.** (b) **Raw Materials Purchases Budget.** (c) **Production Cost/Manufacturing Budget.** (d) **Budgeted Trading Account.**

(a) Budgeted Sales + Closing Stock - Opening Stock = Budgeted Production

(b) Required for Production + Closing Stock - Opening Stock = Required Purchases (show units and €)

(c) Cost of Raw Materials Consumed + Cost of Labour + Fixed Overheads = Cost of Manufacture

(d) Sales - (Opening Stock + Purchases - Closing Stock) = Gross Profit

(Q3) Capital Budget: Explain what is meant by a Capital Budget.

A budget which deals with planned capital expenditure e.g. purchase of fixed assets and planned capital receipts e.g. sale of fixed assets. Decisions relating to these items would be the responsibility of the board of directors. The carrying out of the capital budget is the responsibility of the financial controller.

(Q4) Master Budget: Explain the term 'Master Budget' and list the components of a Master Budget for a manufacturing firm.

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

Components of a Master Budget for a manufacturing firm

(a) Budgeted Manufacturing Account.

(b) Budgeted Trading Account and Profit and Loss Account.

(c) Budgeted Balance Sheet.

(Q5) State the items that could be considered to be the Principal Budget Factor.

(i) Sales demand.

(ii) Availability of materials.

(iii) Availability of labour.

(iv) Availability of capital.

(v) Capacity of the plant.

(Q6) **Outline the differences in focus between Management Accounting and Financial Accounting.**

(i) Management Accounting plans for the future and provides information for planning and budgeting.

Financial Accounting records past events and provides information in the form of a profit and loss account, balance sheet and cash flow statement.

(ii) Management Accounting has an internal focus and provides information to aid planning and decision making.

Financial Accounting has both an internal and external focus and provides information to stakeholders such as managers, shareholders and creditors.

(iii) Management Accounting is not governed or restricted by legislation or legal requirements.

Financial Accounting is governed and restricted by legislation and accounting standards e.g. FRSs.

(iv) Management Accounting prepares reports as often as managers require them.

Financial Accounting normally prepares reports annually.

(v) Management Accounting prepares reports for cost-centres/departments.

Financial Accounting prepares reports about the whole business.