Week 1 - Recap

Overview of Management Accounting

This was covered in the plenary session

Cost Information and Behaviour

This was covered in the small group session

Material covered Week 1:

- Slides Pages **3 – 17**
- Reading Material: Pages **89 – 104**
- Questions: **1 – 3**
- Worksheets: Pages **1 – 3**
- Material was background for rest of course

Week 2 material

Budgeting

What Is A Budget?

A budget is a plan of action expressed in quantitative terms for a specified period

It is an aid to coordinating what needs to be done to implement that plan

A budget can cover both financial and non financial aspects of the plan (e.g. a sales budget for next year can be both in revenue [€] and number of units)

Wide global usage of budgets across all kinds of organizations (commercial and not-for-profit)

Benefits of Budgeting

- Compels planning
- Promotes coordination and communication
- Motivates managers and employees
- Aids control
- Provides a framework for evaluating performance

Features of Budgetary Control

- Identify strategic objectives
- **Establish budgets**
- Measure actual performance
- Compare actual performance with budget
- **Establish variances**
- Analyze the variances
- Take corrective action if necessary

Cash Budget

Future cash receipts and payments are estimated in order to predict the bank balance of an organisation at defined intervals.

The purpose is to enable management to make forward planning decisions.

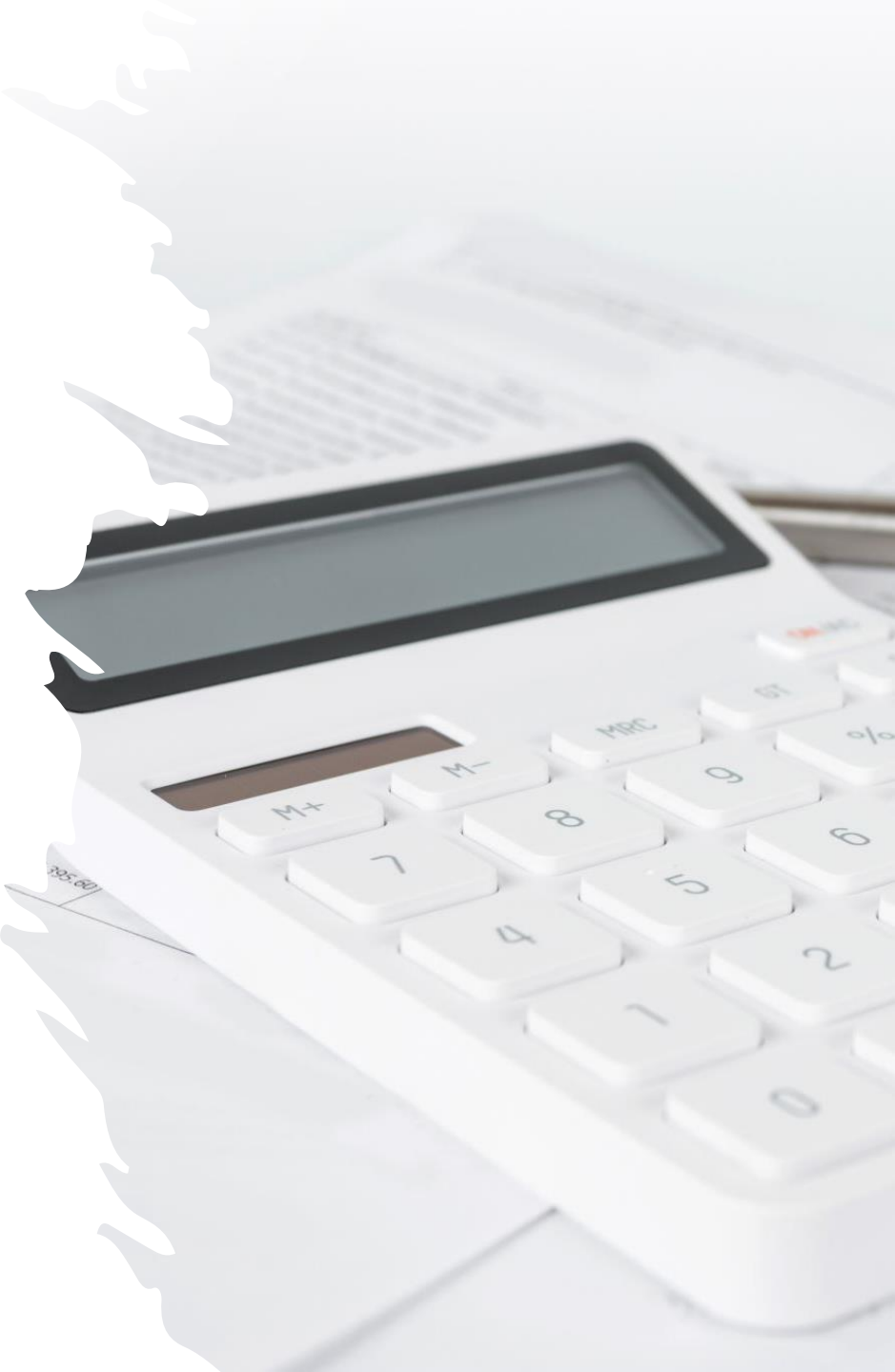
Estimated future cash payments and receipts

Cash Budget

	Jan	*Feb*	*Mar*	*Apr*	*May*	*June*
	€000	*€000*	*€000*	*€000*	*€000*	*€000*
Receipts						
Receivables	**60**	**52**	**55**	**55**	**60**	**55**
Payments						
Payables	**(30)**	**(30)**	**(31)**	**(26)**	**(35)**	**(31)**
Salaries and wages	**(10)**	**(10)**	**(10)**	**(10)**	**(10)**	**(10)**
Electricity			**(14)**			**(9)**
Other overheads	**(2)**	**(2)**	**(2)**	**(2)**	**(2)**	**(2)**
Van purchase			**11**			
Total payments	**(42)**	**(42)**	**(68)**	**(38)**	**(47)**	**(52)**
Cash surplus	**18**	**10**	**(13)**	**17**	**13**	**3**
Opening balance	**12**	**30**	**40**	**27**	**44**	**57**
Cash balance	**30**	**40**	**27**	**44**	**57**	**60**

Page 172 Question 4: Cash Budget

- Estimate cash inflows and outflows



Question 4: Cash Budget

Cash inflows: only what we realy have (payment in futur doesn't count

• Issue of share capital (1)	90
• Loan received (2)	60
• Cash collected from customers (6)	180
• Cash collected from customers (11)	100
	430

Question 4: Cash Budget

Cash outflows:

• Purchase of fixed assets (3)	100
• Rent (4)	30
• Wages (7)	101
• Interest (8)	4
• Stationery (9)	8
• Loan repayment (12)	15
	258

Question 4: Cash Budget

- Cash inflows: 430
- Cash outflows: 258
- Net cash flow 172

Question 4: Income Statement

• Revenue (5) & (11)		350.0
• Expenses:		
Rent (4)	30.0	
Salaries (7)	101.0	
Interest (8)	4.0	
Stationery (9)	8.5	
Depreciation of fixed assets (13)	5.0	(148.5)
• Net profit before taxation		201.5
• Taxation payable on profits for year (14)		(10.0)
• Profit (after tax) for year		191.5

Question 4: Balance Sheet

Fixed assets:	
Equipment at book value (125 - 5)	120.0
Current assets:	
Cash/Bank (from cash budget)	172.0
Accounts receivable (from (5) & (6))	70.0
	242.0
Total assets	362.0
Financed by:	
Ordinary share capital issued (1)	90.0
Retained earnings (from income statement)	191.5
	281.5
Current liabilities:	
Loan payable (2) & (12)	45.0
Taxation payable (14)	10.0
Accounts payable (3) & (9)	25.5
	80.5
Total liabilities and shareholders' funds	362.0

Budgeting in a manufacturing organisation

Production Budget (units)

Sales in **units**	X
+ Budgeted closing stock (finished goods)	X
- Opening stock (finished goods)	(X)
= Production in units	X

Impacts on

- Materials purchase budget
- Direct labour budget
- Manufacturing overhead budget

- ***Do one production budget for each product being produced.***

Materials Purchase Budget (kgs/liters etc)

Production requirement / Usage	X
+ Budgeted closing stock (raw materials)	X
- Opening stock (raw materials)	-(X)
= Purchase requirements	X

Production requirement / Usage =

the production quantity of each product (calculated in the production budget)

multiplied by the quantity of each raw material required.

- ***Do one purchase budget for each raw material being used.***

Page 173 Question 5

Each unit of **Product Omega** requires 3 kgs of raw material. Next month's production information for product Omega is as follows:

Opening stocks:
Raw materials 15,000 kgs.
Finished units of Omega 3,000 units

Budgeted sales of Omega 60,000 units

Planned closing stocks:
Raw materials 7,000 kgs.
Finished units of Omega 4,000 units

Required:

- Calculate the number of kilograms of raw materials that should be purchased next month.

Production Budget

Sales in **units**
+ Budgeted closing stock (FG)
- Opening stock (FG)
= Production in units

Materials Purchase Budget

Production requirement (Usage)
+ Budgeted closing stock (RM)
- Opening stock (RM)
= Purchase requirements

Production Budget (units): Product - Omega

Sales in **units**	60,000	units
+ Budgeted closing stock (FG)	4,000	units
- Opening stock (FG)	<3,000>	units
= Production in units	61,000	units

⇓

Impacts on

- Materials purchase budget
- Direct labour budget
- Manufacturing overhead budget

Materials Purchase Budget (kgs): Raw material

Production requirement (Usage)	183,000 kg
+ Budgeted closing stock (RM)	7,000 kg
Opening stock (RM)	<15,000> kg
Purchase requirements	175,000 kg

Production requirement / usage is:

61,000 units X 3 kg per unit = 183,000 kg

Order of Budget Preparation (Assuming no limiting factors)

Step 1 Prepare the **Sales Budget** (units and revenues)

Step 2 Prepare the **Production Budget** (**units**)
(Sales in units + Closing Inventory - Opening Inventory)

Step 3 Prepare the **Direct Materials Usage Budget**
and **Direct Materials Purchase Budget**

Step 4 Prepare the **Direct Labour Budget**

Step 5 Prepare the **Manufacturing Overhead Budget**

Order of Budget Preparation

Step 6 Prepare the Ending Inventories Budget
(Opening inventory + Purchases – Inventories used = Closing Inventory)

Step 7 Prepare the Cost of Goods Sold Budget

Step 8 Prepare the Nonmanufacturing Costs Budget

Step 9 Prepare the **Budgeted Income Statement**

Step 10 Prepare the Capital Expenditure Budget

Step 11 Prepare the **Cash Budget**

Step 12 Prepare the **Budgeted Balance Sheet**

Page 179 Question 10

- The Ortega Company:
- 2 products: *Arrows and Spears*
- 3 materials: *A, B and C*

Production Budget

Sales in **units**

\+ Budgeted closing stock (FG)

\- Opening stock (FG)

= Production in units

Materials Purchase Budget

Production requirement (Usage)

\+ Budgeted closing stock (RM)

\- Opening stock (RM)

= Purchase requirements

SOLUTION TO QUESTION 10

(i) SALES BUDGET

Note: Separate sales figures for each product

	Units	Price €	Total Sales
Arrows	30,000	70	2,100,000
Spears	20,000	100	2,000,000
			€ 4,100,000

SOLUTION TO QUESTION 10

(ii) PRODUCTION BUDGET

Note: Separate production figures for each product

	Arrows	Spears
Sales in units	**30,000**	**20,000**
Plus closing stock	15,000	6,000
Less opening stock	(10,000)	(5,000)
= Production	35,000 units	21,000 units

SOLUTION TO QUESTION 10

MATERIALS USAGE BUDGET

Note: Separate usage figures for each material

	Arrows	**Spears**	**Total**
Production	35,000 units	21,000 units	
Usage Material A (4kg & 5kg)	140,000 kg	105,000 kg	245,000 kg
Usage Material B (2kg & 3kg)	70,000 kg	63,000 kg	133,000 kg
Usage Material C (0 blocks &1 block)	0	21,000 blocks	21,000 blocks

SOLUTION TO QUESTION 10

MATERIALS PURCHASES BUDGET in quantities and in €

Note: Separate purchase budget for each material

	Material A	Material B	Material C
Usage (in kg / blocks)	245,000	133,000	21,000
Plus closing stock	20,000	17,000	3,000
Less opening stock	(15,000)	(14,000)	(2,000)
= Purchases in qty	250,000 kg	136,000 kg	22,000 blocks
Price	€ 7.00	€ 5.00	€ 2.50
Total cost	€1,750,000	€680,000	€55,000

SOLUTION TO QUESTION 10

(v). LABOUR UTILISATION BUDGET

	Arrows	Spears	Grand total
Production	**35,000**	**21,000**	
Labour hours	2 hours	3 hours	
Labour rate	€ 3.00	€ 4.00	
Labour cost	210,000	252,000	€ 462,000

SOLUTION TO QUESTION 10

VARIABLE OVERHEAD BUDGET

	Arrows	**Spears**	**Grand total**
Production	**35,000**	**21,000**	
Labour hours	2 hours	3 hours	
O/H rate per labour hour	€ 2.00	€ 2.00	
Overhead cost	140,000	126,000	€ 266,000

SOLUTION TO QUESTION 10

BUDGETED FINISHED GOODS STOCK

Product costs = direct material, direct labour and production overheads)

	Arrows		Spears	
Material A	28.00	*4kg @€7*	35.00	*5kg @ €7*
Material B	10.00	*2kg @€5*	15.00	*3kg @€5*
Material C	0.00	*0 units @ €2.5*	2.50	*1 unit @ €2.5*
	38.00		52.50	
Direct labour	6.00	*2hrs @€3*	12.00	*3hrs @€4*
Production Overheads	4.00	*2hrs @€2*	6.00	*3hrs @€2*
	€ 48.00		€ 70.50	
Target Stock	15,000	*Given*	6,000	*Given*
Budgeted FG stock	€720,000	*15,000 units@€48*	€423,000	*6,000 units@€70.50*

Similar type of Questions

- Question 9
- Question 11 (parts A and B only)

Material covered Week 2

- Slides Pages **18 –**
- Reading Material: Pages **105 – 121**
- Questions: **Q4, Q5, & Q10**
- Homework: **Q6 and Q7**
- Self Study: **Q8, Q9 and Q11**