**Question 17**

The following budgeted data relates to the manufacturing firm Whang plc for the period   
June to October Year 2.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **June** | **July** | **August** | **September** | **October** |
| **Sales in units** | 6,000 | 7,000 | 8,000 | 9,000 | 10,000 |

Closing inventory at the end of each month is equal to the level of credit sales of the following month. Credit sales are 20% of total sales.

(a) **Prepare** the Production Budget for the period June to September. **5**

The following information is available:

1. Cash and cash equivalent balance at 1 July is £5,000.
2. The retail selling price per unit is £50.

* retail sales are 80% of total sales
* credit sales revenue is to trade customers at £45 per unit
* credit sales revenue is paid one month after sale
* monthly bad debts are estimated at 5% of credit sales revenue

1. Costs per unit are as follows:

* Material — £18 per unit, payable in the month before production.
* Labour — £14 per unit, payable in the month of production.
* Variable overheads — £9 per unit, 2/3 payable in the month of production   
  and the remainder in the month following production.

1. Fixed costs, excluding depreciation of £2,000, are £5,000 per month.
2. Part of the firm’s premises is sublet at an annual rental of £10,000, payable quarterly in advance starting in January.
3. A new machine is to be purchased in July for £200,000, payable as follows:   
   initial deposit 10% and the balance in four equal monthly instalments beginning  
    in August.

(b) **Prepare** the Cash Budget for July and August. **15**

**Total marks (20)**

**Question 17 — solution**

**(a)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **June** | **July** | **August** | **September** | **October** |
| Cash Sales | 4,800 | 5,600 | 6,400 | 7,200 | 8,000 |
| Credit Sales | 1,200 | 1,400 | 1,600 | 1,800 | 2,000 |
| Total Unit Sales | 6,000 | 7,000 | 8,000 | 9,000 | 10,000 |

**Production budget**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **June** |  | **July** | |  | **August** | |  | **September** | | |  |
| Sales | 6,000 |  | 7,000 | |  | 8,000 | |  | 9,000 | | |  |
| Closing Inventory | 1,400 |  | 1,600 | |  | 1,800 | |  | 2,000 | | | **(1) line** |
|  | 7,400 |  | 8,600 | |  | 9,800 | |  | 11,000 | | |  |
| Opening Inventory | 1,200 |  | 1,400 | |  | 1,600 | |  | 1,800 | | | **(1) line** |
| Add Production | 6,200 |  | 7,200 | |  | 8,200 | |  | 9,200 | | | **(3) line** |
|  |  |  | |  | | |  |  | |  | **5** | | |

**(b)**

**Unit data** **Cash Credit Bad Debt**

Selling price £50 £45 £42·75

Material — £18

Labour — £14

Variable Overheads — £9

**Cash budget — July and August Year 2**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **July** |  | **August** |  |  |  |
| **Opening Balance** | 5,000 |  | 3,600 |  |  |  |
|  |  |  |  |  |  |  |
| **Receipts** |  |  |  |  |  |  |
| Cash Sales Revenue | 280,000 |  | 320,000 | **(1)** | **line** |  |
| Credit Sales Revenue | 51,300 | **(1)** | 59,850 | **(1)** |  |  |
| Rental Income | 2,500 | **(1)** |  |  |  |  |
| **Total Receipts** | £333,800 |  | £379,850 |  |  |  |
|  |  |  |  |  |  |  |
| **Payments** |  |  |  |  |  |  |
| Materials | 147,600 | **(1)** | 165,600 | **(1)** |  |  |
| Labour | 100,800 |  | 114,800 | **(1)** | **line** |  |
| Variable Overheads 2/3 | 43,200 | **(1)** | 49,200 | **(1)** |  |  |
| Variable Overheads 1/3 | 18,600 | **(1)** | 21,600 | **(1)** |  |  |
| Fixed Overheads | 5,000 |  | 5,000 | **(1)** | **line** |  |
| Purchase of Machine | 20,000 | **(1)** | 45,000 | **(1)** |  |  |
| **Total Payments** | £335,200 |  | £401,200 |  |  |  |
| **Closing Balance** | £3,600 |  | £(17,750) |  |  |  |
| Opening/closing balances and heading | |  |  | **(1)** |  |  |
|  |  |  |  |  |  | **15** |

**Total marks (20)**