**Question 27**

**Part A**

Wishaw Umbrellas have provided the following budgeted data for the period January to June Year 3.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **January** | **February** | **March** | **April** | **May** | **June** |
| Production (units) | 2,500 | 2,400 | 1,800 | 2,300 | 1,900 | 1,600 |
| Sales (units) | 2,510 | 2,460 | 1,750 | 2,340 | 1,930 | 1,640 |

The following information is also available:

* The estimated selling price per umbrella is £20.
* Cash customers are allowed a 10% discount on the estimated selling price.
* Credit customers who pay in the month following the month of sale are allowed a discount of 5% on the estimated selling price. Credit customers who pay after this time do not qualify for this discount.

Other budgeted information for the 6 months is as follows:

(1) Cash revenue represents 40% of the total sales for each month.

(2) It is estimated that 50% of credit customers will receive the discount and the remainder will pay within 2 months of the month of sale.

(3) Material costs £4 per unit — payable in the month **before** production.

(4) Labour costs £5 per unit — payable in the same month as production.

(5) Variable overhead costs of £4 per unit are payable as follows:

¼ in the same month as production

¾ the month following production

(6) A labour bonus of £2 per unit is payable on production in excess of 2,000 units  
 in the month following production.

(7) Fixed costs, excluding depreciation of £2,000, are payable in the same month   
as production:

* £20,000 on production of up to and including 2,000 units
* £25,000 on production over 2,000 units

(8) The company will issue 40,000 ordinary shares of 50p each in March at a premium of 25p.

(9) The Company will receive a bank loan of £60,000 in April to help finance the purchase of new equipment costing £80,000. This equipment will be paid for   
in May. The bank loan, including interest of 5%, will be repaid in 12 equal instalments, also starting in May.

**Prepare** the Cash Budget for the 3 months March to May Year 3, given that the cash and cash equivalents balance at the beginning of March is £50,000.

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**Question 27 (continued)**

**Part B**

EK Manufacturing Ltd has a balance of 500 units of Component J, with a unit cost £4   
per unit at the beginning of May Year 2. The following shows the receipts and issues   
of Component J during the month of May:

|  |  |
| --- | --- |
| **Receipts** | **Issues** |
| May 3 — 500 units @ £4·20 | May 8 — 600 units |
| May 12 — 400 units @ £4·40 | May 15 — half of the units purchased on  May 12 were returned as they were faulty |
| May 20 — 1,000 units @ £4·14 | May 18 — 400 units |

**Prepare** the Inventory Record Card for Component J for the month of May, using the   
AVCO pricing system **showing the Quantity, Price, and Value of units received,   
issued and in balance**. **8**

**Total marks (40)**

**Question 27 — solution**

**Part A**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **January** | | **February** | | **March** |  | **April** |  | **May** |  | **June** |  |
| Production | 2,500 |  | 2,400 |  | 1,800 |  | 2,300 |  | 1,900 |  | 1,600 |  |
| Sales | 2,510 |  | 2,460 |  | 1,750 |  | 2,340 |  | 1,930 |  | 1,640 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Selling Price: |  |  | £ |  |  |  |  |  |  |  |  |  |
| Cash Customers | |  | 18 |  |  |  |  |  |  |  |  |  |
| Credit Customers (1 month) | | | 19 |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Cash Budget for the three months March to May Year 3** | | | | | |  |  |  |  |  |  |  |
|  | **March** |  | **April** |  | **May** |  |  |  |  |  |  |  |
| Opening Balance | 50,000 | **(1)** | 73,682 |  | 123,465 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Receipts** |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash Revenue | 12,600 | **(1)** | 16,848 | **(1)** | 13,896 | **(1)** |  |  |  |  |  |  |
| Credit Revenue: |  |  |  |  |  |  |  |  |  |  |  |  |
| 1 Month | 14,022 | **(1)** | 9,975 | **(1)** | 13,338 | **(1)** |  |  |  |  |  |  |
| 2 Months | 15,060 | **(1)** | 14,760 | **(1)** | 10,500 | **(1)** |  |  |  |  |  |  |
| Ordinary Shares | 20,000 | **(1)** |  |  |  |  |  |  |  |  |  |  |
| Share Premium | 10,000 | **(1)** |  |  |  |  |  |  |  |  |  |  |
| Bank Loan |  |  | 60,000 | **(1)** |  |  |  |  |  |  |  |  |
| **Total Receipts** | 71,682 |  | 101,583 |  | 37,734 |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Payments** |  |  |  |  |  |  |  |  |  |  |  |  |
| Materials | 9,200 | **(1)** | 7,600 | **(1)** | 6,400 | **(1)** |  |  |  |  |  |  |
| Labour | 9,000 | **(1)** | 11,500 | **(1)** | 9,500 | **(1)** |  |  |  |  |  |  |
| Overheads: |  |  |  |  |  |  |  |  |  |  |  |  |
| One-quarter | 1,800 | **(1)** | 2,300 | **(1)** | 1,900 | **(1)** |  |  |  |  |  |  |
| Three-quarters | 7,200 | **(1)** | 5,400 | **(1)** | 6,900 | **(1)** |  |  |  |  |  |  |
| Labour Bonus | 800 | **(1)** | – |  | 600 | **(1)** |  |  |  |  |  |  |
| Fixed Costs | 20,000 |  | 25,000 | **(1)** | 20,000 | **(1)** |  |  |  |  |  |  |
| Equipment |  |  |  |  | 80,000 | **(1)** |  |  |  |  |  |  |
| Loan Repayment |  |  |  |  | 5,250 | **(2)** |  |  |  |  |  |  |
| **Total Payments** | 48,000 |  | 51,800 |  | 130,550 |  |  |  |  |  |  |  |
| Closing Balance | 73,682 |  | 123,465 |  | 30,649 |  |  |  |  |  |  |  |
|  |  | |  | |  | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | | | |  |  |  |  |  | **32** | |
|  | | | | | |  |  |  |  |  |  |  |

**Part B**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **RECEIPTS** | | | | **ISSUES** | | | | **BALANCE** | | |
| **Date** | **Qty** | **Cost Per Unit** | **Total** |  | **Qty** | **Cost Per Unit** | **Total** |  | **Qty** | **Cost Per Unit** | **Total** |  |
| May 1 |  |  |  |  |  |  |  |  | 500 | £4·00 | £2,000 | **(1)** |
| May 3 | 500 | £4·20 | £2,100 | **(1)** |  |  |  |  | 1,000 | £4·10 | £4,100 |  |
| May 8 |  |  |  |  | 600 | £4·10 | £2,460 | **(1)** | 400 | £4·10 | £1,640 |  |
| May 12 | 400 | £4·40 | £1,760 | **(1)** |  |  |  |  | 800 | £4·25 | £3,400 |  |
| May 15 |  |  |  |  | 200 | £4·40 | £880 | **(1)** | 600 | £4·20 | £2,520 |  |
| May 18 |  |  |  |  | 400 | £4·20 | £1,680 | **(1)** | 200 | £4·20 | £840 |  |
| May 20 | 1,000 | £4·14 | £4,140 | **(1)** |  |  |  |  | 1,200 | £4·15 | £4,980 | **(1)** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

**8**

**Total marks (40)**