Note: sample question O Conner Ltd page 260 part (vi) should read 12% interest instead of 15%

Question 1

Juniper

Sales Budget	**Pine**	**Maple**
Expected Sales in Units	2,000	2,500
Selling Price per unit	500	700
Budgeted Sales Revenue €	1,000,000	1,750,000

Production Budget	**Pine**	**Maple**
Sales required	2,000	2,500
Closing Stock	400	520
less opening Stock	-500	-650
Budgeted Production	1,900	2,370

500 @ 80% = 400
650 @ 80% = 520

Raw Materials Purchases Budget	**Material 1**	**Material 2**
Pine	7,600	3,800
Maple	7,110	9,480
Total Material Required	14,710	13,280
Closing stock of raw materials	1,600	2,400
less opening stock of raw materials	(2,000)	(3,000)
Purchases required in kg	14,310	12,680
Purchases price €	10	5
Purchase Cost €	143,100	63,400

1,900 x 4 = 7,600
1,900 x 2 = 3,800
2,370 x 3 = 7,110
2,370 x 4 = 9,480
2,000 @ 80% = 1,600
3,000 @ 80% = 2,400

Budgeted Manufacturing Account

Direct Materials	€	€
Opening Stock Material 1 (2,000 * 6)	12,000	
Opening Stock Material 2 (3,000* 5)	15,000	27,000
Purchase of raw materials (143,100 + 63,400)		206,500
		233,500
less closing stock of material 1 (1,600 x 10)	(16,000)	
less closing stock material 2 (2,400 x 5)	(12,000)	(28,000)
Cost of raw materials used		205,500
Direct costs		
Direct Labour (1,900 x 4 25 x 2,370 x 5 x 25)		486,250
Prime Cost		691,750
Factory Overheads		
Variable Overheads	194,500	
Fixed Overheads	250,000	444,500
Cost of Manufacture		**1,136,250**
(1,900 x 4 x 10) + (2,370 x 5 x 10)		

Budgeted Trading Account

Sales (1,000,000 + 1,750,000)		2,750,000
Less Cost of Sales		
Opening Stock of Finished Goods		
Pine (500 x 300)	150,000	
Maple (650 x 350)	227,500	
Cost of Manufacture	1,136,250	
	1,513,750	
Less closing stock of finished goods		
Pine (400 * 240)	(96,000)	
Maple (520* 290)	(150,800)	
Cost of Sales		(1,266,950)
Gross Profit		1,483,050

Question 2

TomFod

Sales Budget	**Big**	**Little**
Expected Sales in Units	2,500	2,000
Selling Price per unit	100	150
Budgeted Sales Revenue €	250,000	300,000

Production Budget	**Big**	**Little**
Sales required	2,500	2,000
Closing Stock	160	80
less opening Stock	-200	-100
Budgeted Production	2,460	1,980

200 @ 80%
100 @ 80%

Raw Materials Purchases Budget	**Material X**	**Material Y**
Big	12,300	4,920
Little	5,940	7,920
Total Material Required	18,240	12,840
Closing stock of raw materials	2,000	1,400
less opening stock of raw materials	-2,500	-1,750
Purchases required in kg	17,740	12,490
Purchases price €	2.5	3.5
Purchase Cost €	44,350	43,715

2,460 x 5 = 12,300
2,460 x 2 = 4,920
1,980 x 3 = 5,940
1,980 x 4 = 7,920
2,500 @80% = 2,000
1,750 @ 80% = 1,400

Budgeted Manufacturing Account

Direct Materials	€	€
Opening Stock Material X (2,500 * 2)	5,000	
Opening Stock Material Y (1,750* 3)	5,250	10,250
Purchase of raw materials (44,350 + 43,715)		88,065
		98,315
less closing stock of material X (2,000 @ 2.5%)	-5,000	
less closing stock material Y (1,400 @ 3.5%)	-4,900	-9,900
Cost of raw materials used		88,415
Direct costs		
Direct Labour (2,460 x 5 x 10) + (1,980 x 8 x 10)		281,400
Prime Cost		369,815
Factory Overheads		
Variable Overheads (2,460 x 5 x 4) + (1,980 x 8 x 4)	112,560	
Fixed Overheads	56,280	168,840
Cost of Manufacture		**538,655**

Budgeted Trading Account

Sales (250,000 + 300,000)		550,000
Less Cost of Sales		
Opening Stock of Finished Goods		
Big (200 x 50)	10,000	
Little (100 x 75)	7,500	
Cost of Manufacture	538,655	
	556,155	
Less closing stock of finished goods		
Big (160 * 96)	(15,360)	
Little (80 * 146)	(11,680)	
Cost of Sales		529,115
Gross Profit		20,885

Costing Of Closing Stock

Big	€	*Little*	€
Material X (5*2)	10	Material X (3 * 2)	6
Material Y (2 * 3)	6	Material Y (4 * 3)	12
labour (5 *10)	50	labour (8 * 10)	80
Variable Overhead (4 * 5)	20	Variable Overhead (4 * 8)	32
Fixed Overhead (2 *5)	10	Fixed Overhead (2 * 8)	16
	96		146

Fixed Overheads	56,280	56,280	
Direct Labour Hours	(2,460 x 5) + (1,980 x 8)	28,140	€2

Question 3

Bom Bom

Sales Budget	**Casual**	**Luxury**
Expected Sales in Units	15,500	20,000
Selling Price per unit	10	25
Budgeted Sales Revenue €	155,000	500,000

Production Budget	**Casual**	**Luxury**
Sales required	15,500	20,000
Closing Stock	2,250	3,600
less opening Stock	(2,500)	(4,000)
Budgeted Production	15,250	19,600

2,500 @ 90% = 2,250
4,000 @ 90% = 3600

Raw Materials Purchases Budget	**Material X**	**Material Y**
Casual	30,500	30,500
Luxury	58,800	78,400
Total Material Required	89,300	108,900
Closing stock of raw materials	5,850	6,975
less opening stock of raw materials	-6,500	-7,750
Purchases required in kg	88,650	108,125
Purchases price €	0.8	1.0
Purchase Cost €	70,920	108,125

15,250 x 2 = 30500
15250 x 2 = 30500
19600 x 3 = 58800
19600 x 4 = 78400
6500 @ 90% = 5850
7750 @ 90% = 6975

Budgeted Manufacturing Account

Direct Materials	€	€
Opening Stock Material A (6,500 * .5)	3,250	
Opening Stock Material B (7,750* 1)	7,750	11,000
Purchase of raw materials (70920 + 108125)		179,045
		190,045
less closing stock of material A (5850 x 0.8)	(4680)	
less closing stock material B (6975 x 1)	(6,975)	(11655)
Cost of raw materials used		178390
Direct costs		
Direct Labour (15250 x 2 x 4) + (19600 x 1 x 4)		200,400
Prime Cost		378,390
Factory Overheads		
Variable Overheads (15250 x 2) + (19600 x 2)	69,700	
Fixed Overheads	50,100	119,800
Cost of Manufacture		**498,190**

Budgeted Trading Account

Sales (155000 + 500000		655,000
Less Cost of Sales		
Opening Stock of Finished Goods		
Casual (2500 x 3)	7,500	
Luxury (4000 * 4)	16,000	
Cost of Manufacture	498,190	
	521,690	
Less closing stock of finished goods		
Casual (2,250 * 16)	-36,000	
Luxury (3,600* 12)	-43,200	
Cost of Sales		442,490
Gross Profit		212,510

Question 4

Carr

Sales Budget	**Star**	**Moon**
Expected Sales in Units	30,000	40,000
Selling Price per unit	12	20
Budgeted Sales Revenue €	360,000	800,000

Production Budget	**Star**	**Moon**
Sales required	30,000	40,000
Closing Stock	2,400	4,200
less opening Stock	-2,000	-3,500
Budgeted Production	30,400	40,700

2000 @ 120% = 2400
3500 @ 120% = 4200

Raw Materials Purchases Budget	**Material A**	**Material B**
Star	60,800	91,200
Moon	122,100	162,800
Total Material Required	182,900	254,000
Closing stock of raw materials	7,200	8,400
Less opening stock of raw materials	-6,000	-7,000
Purchases required in kg	184,100	255,400
Purchases price €	0.75	1.0
Purchase Cost €	138,075	255,400

30400 x 2 = 60800
30400 x 3 = 91200
40700 x 3 = 122100
40700 x 4 = 162800
6000 @ 120% = 7200
7000 @ 120% = 8400

Budgeted Manufacturing Account

Direct Materials	€	€
Opening Stock Material A (6,000 * .5)	3,000	
Opening Stock Material B (7,000* 1)	7,000	10,000
Purchase of raw materials (138,075 + 255,400)		393,475
		403,475
less closing stock of material A (7200 @ 0.75)	-5,400	
less closing stock material B (8400 @ 1)	-8,400	-13,800
Cost of raw materials used		389,675
Direct costs		
Direct Labour (30400 x 1 x 5) + (40700 x 2 x 5)		559,000
Prime Cost		948,675
Factory Overheads		
Variable Overheads (30400 x 1 x 3) + (40700 x 2 x 3)	335,400	
Fixed Overheads	227,600	563,000
Cost of Manufacture		1,511,675

Budgeted Trading Account

Sales (360000 + 800000)		1,160,000
Less Cost of Sales		
Opening Stock of Finished Goods		
Star (2000 @ 2)	4,000	
Moon(3500 @ 3)	10,500	
Cost of Manufacture	1,511,675	
	1,526,175	
Less closing stock of finished goods		
Star (2400 * 14)	(33,600)	
Moon (4,200* 25)	(105,000)	
Cost of Sales		1,387,575
Gross Profit		(227,575)

Question 5

Quain Ltd

Cash Budget for Quain Ltd from January to June

	January	February	March	April	May	June	Total
Receipts							
Cash Sales	66,500	68,875	71,820	75,050	77,900	79,800	439,945
Credit Sales 1		315,000	326,250	340,200	355,500	369,000	1,705,950
Credit Sales 2			315,000	326,250	340,200	355,500	1,336,950
	66,500	383,875	713,070	741,500	773,600	804,300	3,482,845
Payments							
Purchases 1		125,440	127,400	129,850	133,280	140,140	6,56,110
Purchases 2			128,000	130,000	132,500	136,000	526,500
Wages	40,000	40,000	40,000	40,000	40,000	40,000	240,000
Variable Overheads	70,000	72,500	75,600	79,000	82,000	84,000	463,100
Fixed Overheads	55,000	55,000	55,000	55,000	54,000	54,000	328,000
Equipment					60,000		60,000
Interest					200	200	400
	165,000	292,940	426,000	433,850	501,980	454,340	2,274,110
Net Monthly Cash flow	-98,500	90,935	287,070	307,650	271,620	349,960	1,208,735
Loan					60,000		60,000
Opening Cash		-98,500	-7,565	279,505	587,155	918,805	
Closing Balance	*-98,500*	*-7,565*	*279,505*	*587,155*	*918,805*	*1,268,765*	857,235

700,000 x 10 = 70,000
100

60,000 / 5 = 12,000
12,000 / 12 = 1,000 p.m.
56,000 – 1000 = 55,000
(Remember depreciation is a non-cash expense)

Interest
60,000 @ 4% = 2,400
2,400 / 12 = 200

Budgeted Profit and Loss Account for six Months ending 30/06/14

Sales			4,631,000			
Less Cost of Sales						
Purchases/Materials		1,631,000				
Wages		240,000				
Variable Overhead		463,100				
Fixed Overhead		328,000	2,662,100			
Gross Profit			1,968,900			
Discount received			13,390			
			1,982,290			
Less Expenses						
Depreciation Equipment (1000 x 2)		2,000				
Discount allowed		23,155				
Interest (200 x 2)		400	25,555			
Net Profit			1,956,735			

Schedule of Debtors

Sales	70,000	72,500	75,600	79,000	82,000	84,000
Discount	-3,500	-3,625	-3,780	-3,950	-4,100	-4200
Cash Sales	66,500	68,875	71,820	75,050	77,900	79,800

Schedule of Creditors

Purchases		128,000	130,000	132,500	136,000	143,000
Discount		-2,560	-2,600	-2,650	-2,720	-2,860
Cash Purchases	0	125,440	127,400	129,850	133,280	140,140

Question 6

Cooke

Cash Budget for Cooke Ltd from January to June

	July	Aug	Sept	Oct	Nov	Dec	Total
Receipts							
Cash Sales	76,000	80,750	85,500	86,450	87,400	89,300	505,400
Credit Sales 1		192,000	204,000	216,000	218,400	220,800	1,051,200
Credit Sales 2			128,000	136,000	144,000	145,600	553,600
	76,000	272,750	417,500	438,450	449,800	455,700	2,110,200
Payments							
Purchases 1		250,000	255,000	260,000	265,000	265,000	1,295,000
Wages	20,000	20,000	20,000	20,000	20,000	20,000	120,000
Variable Overheads	40,000	42,500	45,000	45,500	46,000	47,000	266,000
Fixed Overheads	43,250	43,250	43,250	43,250	43,250	43,250	259,500
Equipment	40,000						40,000
Interest	100	100	100	100	100	100	600
	143350	355,850	363350	368850	374350	375350	1,981,100
Net Monthly Cash flow	-67,350	-83,100	54,150	69,600	75,450	80,350	129,100
Loan	40,000						40,000
Opening Cash		-27,350	-110,450	-56,300	13,300	88,750	
Closing Balance	*-27,350*	*-110,450*	*-56,300*	*13,300*	*88,750*	*169,100*	169,100

(400,000 / 20) x 2

Depreciation
45,000 / 5 = 9,000
9,000 / 12 = 750
Fixed Overhead
44,000 – 750 43250

Budgeted Profit and Loss Account for six Months ending 30/06/09

Sales			2,660,000			
Less Cost of Sales						
Purchases/Materials		1,565,000				
Wages		120,000				
Variable Overhead		266,000				
Fixed Overhead		259,500	2,210,500			
Gross Profit			449,500			
Less Expenses						
Depreciation Equipment (750 x 6)		4,500				
Discount allowed		26,600				
Interest (100 x 6)		600	31,700			
Net Profit			417,800			

Schedule of Debtors

Sales	80,000	85,000	90,000	91,000	92,000	940,000
Discount	-4000	-4250	-4500	-4550	-4600	-4700
Cash Sales	76,000	80,750	85,500	86,450	87,400	935,300

Question 7

Hogan

Cash Budget for Hogan Ltd from January to June

	July	August	Sept	Oct	Nov	Dec	Total
Receipts							
Cash Sales	297,000	309,375	334,125	339,075	341,550	346,500	1,967,625
Credit Sales 1		150,000	156,250	168,750	171,250	172,500	818,750
Credit Sales 2			150,000	156,250	168,750	171,250	646,250
	297,000	459,375	640,375	664,075	681,550	690,250	3,432,625
Payments							
Purchases 1		343,000	347,900	352,800	357,700	367,500	1,768,900
Wages	25,000	25,000	25,000	25,000	25,000	25,000	150,000
Variable Overheads	60,000	62,500	67,500	68,500	69,000	70,000	397,500
Fixed Overheads	29,800	29,800	29,800	29,800	29,800	29,800	178,800
Equipment	24,000						24,000
Loan Repayment with Interest						6180	6,180
	138,800	460,300	470,200	476,100	481,500	498,480	2,525,380
Net Monthly Cash flow	158,200	-925	170,175	187,975	200,050	191,770	907,245
Loan	24,000						24,000
Opening Cash		182,200	181,275	351,450	539,425	739,475	
Closing Balance	*182,200*	*181,275*	*351,450*	*539,425*	*739,475*	*931,245*	931,245

(600,000 / 100) x €1

Depreciation
24,000 / 10 = 2,400
2,400 / 12 = 200
Fixed Overhead
30,000 – 200 = 43,250

Loan Repayment
¼ x 24000 = 6,000
6,000 @ 3% = 180
6,000 + 180 = 6,180

Budgeted Profit and Loss Account for six Months ending 31/12 /14

Sales		3,975,000
Less Cost of Sales		
Purchases/Materials	218,500	
Wages	150,000	
Variable Overhead	397,500	
Fixed Overhead	178,800	944,800
Gross Profit		3,030,200
Discount received		36,100
		3,066,300
Less Expenses		
Depreciation Equipment (200 x 6)	1,200	
Discount allowed	19,875	
Interest (6000 @ 3%)	180	21,255
Net Profit		3,045,045

Schedule of Debtors

Sales	300,000	312,500	337,500	342,500	345,000	350,000
Discount	-3,000	-3,125	-3,375	-3,425	-3,450	-3,500
Cash Sales	297,000	309,375	334,125	339,075	341,550	346,500

Schedule of Creditors

Purchases		350,000	355,000	360,000	365,000	375,000
Discount		-7,000	-7,100	-7,200	-7,300	-7,500
Cash Purchases	0	343,000	347,900	352,800	357,700	367,500

Question 8

Jacob

Cash Budget for Jacob Ltd from January to June

	January	February	March	April	May	June	Total
Receipts							
Cash Sales	116,400	135,800	155,200	174,600	194,000	213,400	989,400
Credit Sales 1		90,000	105,000	120,000	135,000	150,000	600,000
Credit Sales 2			90,000	105,000	120,000	135,000	450,000
	116,400	225,800	350,200	399,600	449,000	498,400	2,039,400
Payments							
Purchases 1		73500	100,450	102,900	110,250	117,600	504,700
Purchases2			75,000	102,500	105,000	112,500	395,000
Wages	26,000	26,000	26,000	26,000	26,000	26,000	156,000
Variable Overheads	37,500	43,750	50,000	56,250	62,500	68,750	318,750
Fixed Overheads	39,250	39,250	39,250	39,250	39,250	39,250	235,500
Equipment	40,000						40,000
Interest	100	100	100	100	100	100	600
Loan Repayment						5000	5,000
	142,850	182,600	290,800	327,000	343,100	369,200	1,655,550
Net Monthly Cash flow	-26,450	43,200	59,400	72,600	105,900	129,200	383,850
Loan	40,000						40,000
Opening Cash		13,550	56,750	116150	188,750	294,650	
Closing Balance	*13,550*	*56,750*	*116,150*	*188,750*	*294,650*	*423,850*	423,850

(300,000 / 40) x 5 = 37,500

Depreciation
(40,000 – 4,000) / 10 = 9,000
9,000 / 12 = 750
Fixed Overhead
40,000 – 750 = 39,250

Interest
24,000 @ 3% = 1,200
1,2000 / 12 = 100

Budgeted Profit and Loss Account for six Months ending 30/06/14

Sales			2,550,000			
Less Cost of Sales						
Purchases/Materials		1,285,000				
Wages		156,000				
Variable Overhead		318,750				
Fixed Overhead		235,500	1,995,250			
Gross Profit			554,750			
Discount received			10,300			
			565,050			
Less Expenses						
Depreciation Equipment (750 x 6)		4,500				
Discount allowed		30,600				
interest		600	35,700			
Net Profit			529,350			

Schedule of Debtors

Sales	120,000	140,000	160,000	180,000	200,000	220,000
Discount	-3,600	-4,200	-4,800	-5,400	-6,000	-6,600
Cash Sales	116,400	135,800	155,200	174,600	194,000	213,400

Question 9

Cash Budget for O Donnell Ltd from January to June

	January	February	March	April	May	June	Total
Receipts							
Cash Sales	13,000	13,600	14,000	14,000	14,400	15,000	84,000
Credit Sales 1 (Debtors in Q)	52,000	52,000	54,400	56,000	56,000	57,600	328,000
	65,000	65,600	68,400	70,000	70,400	72,600	412,000
Payments							
Purchases 1	54,400	56,000	56,000	57,600	60,000	57,600	341,600
Rent (18000/12)	1,500	1,500	1,500	1,500	1,500	1,500	9,000
Computer		8,000					8,000
Equipment					12,000		12,000
Wages	12,000	12,000	12,000	12,000	12,000	12,000	72,000
Rates					1,600		1,600
Loan Repayment						3,075	3,075
	67,900	77,500	69,500	71,100	87,100	74,175	447,275
Net Monthly Cash flow	-2,900	-11,900	-1,100	-1,100	-16,700	-1,575	-35,275
Loan	3,000	12,000	1,000	1,000	17,000	1,000	35,000
Opening Cash	1,500	1,600	1,700	1,600	1,500	1,800	1,500
Closing Balance	1,600	1,700	1,600	1,500	1,800	1,225	1,225

3000 @ 6% = 180
180 x 5/12 = 75

Given in Question = 1,500

Budgeted Profit and Loss Account for six Months ending 30/06/09

Sales		420,000
Less Cost of Sales		
Opening Stock	52,000	
Purchases/Materials	341,600	
Closing Stock (Purchases – June)	(57,600)	336,000
Gross Profit		84,000
Less Expenses		
Rent	9,000	
Wages	72,000	
Rates (1,600 x 2/8 + 1,000	1,400	
Depreciation Computer (8,000 x 12% x 5/12)	400	
Depreciation Equipment	300	
Interest	425	83,525
Net Profit		475

Given in Question = 52,000

3,000 @ 6% x 5/12 =	75
1,000 @ 6% x 3/12 =	15
12,000 @ 6% x 4/12 =	240
1,000 @ 6% x 2/12 =	10
17,000 @ 6% x 1/12 =	85
	425

Balance Sheet as at 31/12/2014

Fixed Assets			
Computer	8,000	400	7,600
Equipment	12,000	300	11,700
			19,300
Current Assets			
Stock (June Receivables)		57,600	
Debtors (75000 @ 80%)		60,000	
Cash		1,225	
Rates Prepaid (1600 - 400)		1200	
		120,025	
Current Liabilities			
Interest due (425 - 75)		350	
Working Capital			119,675
Total Net Assets			138,975
Financed By			
Capital		106,500	
Reserves		475	
Loan (3,000 + 1,000 + 12,000 + 1,000 + 17,000 + 1,000 – 3,000)		32,000	
		138,975	

Question 10

Cash Budget for O'Grady Ltd from January to June

	January	February	March	April	May	June	Total
Receipts							
Cash Sales	42,500	44,000	43,000	45,000	46,000	44,000	264,500
Credit Sales 1	40,000	42,500	44,000	43,000	45,000	46,000	260,500
	82,500	86,500	87,000	88,000	91,000	90,000	525,000
Payments							
Purchases 1	66,000	64,500	67,500	69,000	66,000	69,000	402,000
Rent (13200 / 12)	1,100	1,100	1,100	1,100	1,100	1,100	6,600
Equipment			4,000				4,000
Furniture				8,000			8,000
Wages	10,000	10,000	10,000	10,000	10,000	10,000	60,000
Insurance			2,400				2,400
Loan Repayment						1050	1,050
	77100	75,600	85000	88100	77100	81150	484,050
Net Monthly Cash flow	5,400	10,900	2,000	-100	13,900	8,850	40,950
Loan	4,000						4,000
Opening Cash	1,500	10,900	21,800	23,800	23,700	37,600	1,500
Closing Balance	10,900	21,800	23,800	23,700	37,600	46,450	46,450

75% of Sales = 66,000

¼ x 4,000 = 1,000
1,000 x 12% x 5/12 = 50

Budgeted Profit and Loss Account for six Months ending 30/06/09

Sales		529,000
Less Cost of Sales		
Opening Stock	63,750	
Purchases/Materials	402,000	
Less closing Stock (Closing Purchases)	(69,000)	396,750
Gross Profit		132,250
Less Expenses		
Rent	6,600	
Wages	60,000	
Insurance (2400 x 4/6 + 800)	2,400	
Depreciation Equipment (4,000 @ 12% x 4/12)	160	
Depreciation Office Furniture (8,000 x 15 x 3/12)	300	
Interest (4,000 @ 12% x 5/12)	200	69,660
Net Profit		62,590

Balance Sheet as at 31/12/2014

Fixed Assets				
Equipment	4,000		160	3,840
Office Furniture	8,000		300	7,700
				11,540
Current Assets				
Stock (Closing Purchases)			69,000	
Debtors (88,000 @ 50%)			44,000	
Cash (Budget answer)			46,450	
Insurance Prepaid (2,400 x 2/6)			800	
			160,250	
Current Liabilities				
Interest due (200 - 50)			150	
Working Capital				160,100
Total Net Assets				171,640

Financed By		
Capital	106,050	
Reserves		62,590
Loan (4,000 – 1,000)	3,000	
	171,640	

Question 11

Note: Part (v) (vi) and (vii) page 266 O'Flaherty should read 2014 not 2012

Cash Budget for O' Flaherty Ltd from January to June

	January	February	March	April	May	June	Total
Receipts							
Cash Sales	33,000	34,800	33,600	36,000	37,200	34,800	209,400
Credit Sales 1 (Debtor I/O)	10500	22,000	23,200	22,400	24,000	24,800	126,900
	43,500	56,800	56,800	58,400	61,200	59,600	336,300
Payments							
Purchases 1	46,400	44,800	48,000	49,600	46,400	49,600	284,800
Rent			12,000				12,000
Computer		4,500					4,500
Equipment			15,500				15,500
Wages	14,000	14,000	14,000	14,000	14,000	14,000	84,000
Property Tax	2,400						2,400
Loan Repayment						3075	3,075
	62800	63,300	89500	63600	60400	66675	406,275
Net Monthly Cash flow	(19,300)	(6,500)	(32,700)	(5,200)	800	(7,075)	(69,975)
Loan	3,000						3,000
Opening Cash	1500	(14,800)	(21,300)	(54,000)	(59,200)	(58,400)	1,500
Closing Balance	(14,800)	(21,300)	(54,000)	(59,200)	(58,400)	(65,475)	(65,475)

50,000 @ 80% = 46,400

3,000 @ 6% = 150
150 x 5/12 = 75

Budgeted Profit and Loss Account for six Months ending 30/06/09

Sales		349,000
Less Cost of Sales		
Opening Stock (Given in Question)	44,000	
Purchases/Materials	284,800	
Less closing Stock (Last recharge figure)	(49,600)	279,200
Gross Profit		69,800
Less Expenses		
Rent (12,000 x 4/12) + 2,000	6,000	
Wages	84,000	
Property Tax (2,400 * 6/12)	1,200	
Depreciation Computers (4,500 x 12% x 5/12)	225	
Depreciation Equipment (15,500 x 12% x 4/12)	620	
interest	75	92,120
Net Profit		-22,320

Balance Sheet as at 31/12/2014

Fixed Assets			
Computer	4,500	225	4,275
Equipment	15,500	620	14,880
			19,155
Current Assets			
Stock		49,600	
Debtors (58,000 @ 40%)		23,200	
Rent prepaid (12,000 - 4000)		8,000	
Property Tax Prepaid		1,200	
		82,000	
Current Liabilities			
Bank Overdraft		65,475	
Working Capital			16,525
Total Net Assets			35,680
Financed By			
Capital		58,000	
Reserves		(22,320)	
		35,680	

Question 12

Cash Budget for O'Hanlon Ltd from January to June

	January	February	March	April	May	June	Total
Receipts							
Cash Sales	52,000	54,400	52,800	54,400	56,000	62,400	332,000
Credit Sales 1	6,000	13,000	13,600	13,200	13,600	14,000	73,400
	58,000	67,400	66,400	67,600	69,600	76,400	405,400
Payments							
Purchases 1	51,000	49,500	51,000	52,500	58,500	60,000	322,500
Rent (14400 / 12)	1,200	1,200	1,200	1,200	1,200	1,200	7,200
Vehicle		14,000					14,000
Equipment				6,500			6,500
Wages	12,500	12,500	12,500	12,500	12,500	12,500	75,000
Rates				1,600			1,600
Loan Repayment						2,050	2,050
	64,700	77,200	64,700	74,300	72,200	75,750	428,850
Net Monthly Cash flow	-6,700	-9,800	1,700	-6,700	-2,600	650	-23,450
Loan	10,000	10,000		5,000	3,000		28,000
Opening Cash	1,800	5,100	5,300	7,000	5,300	5,700	1,800
Closing Balance	*5,100*	*5,300*	*7,000*	*5,300*	*5,700*	*6,350*	*6,350*

68,000 @ 75% = 51,000

10,000 @ 20% = 2,000
2,000 @ 6% = 120
120 x 5/12 = 50

Budgeted Profit and Loss Account for six Months ending 30/06/14

Sales		415,000
Less Cost of Sales		
Opening Stock	62,000	
Purchases/Materials	322,500	
Less closing Stock	(60,000)	324,500
Gross Profit		90,500
Less Expenses		
Rent	7,200	
Wages	75,000	
Rates (1,600 x 3/6 + 1,800)	2,600	
Depreciation Computers (14,000 @ 12% x 5/12)	700	
Depreciation Equipment (65,00 @ 20% x 3/12)	325	
Interest	515	86,340
Net Profit		4,160

10,000 @ 6% x 5/12 =	250
10,000 @ 6% x 4/12 =	200
5,000 @ 6% x 2/12 =	50
3,000 @ 6% x 1/12 =	15
	515

Balance Sheet as at 31/12/2014

Fixed Assets			
Vehicle	14,000	700	13,300
Equipment	6,500	325	6,175
			19,475
Current Assets			
Stock		60,000	
Debtors (78,000 @ 20%)		15,600	
Cash		6,350	
Rates Prepaid (1,600 x 3/6)		800	
		82,750	
Current Liabilities			
Interest due (515 – 50)		-465	
Working Capital			82,285
Total Net Assets			101,760
Financed By			
Capital		71,600	
Reserves		4,160	
Loan (10,000 + 10,000 + 5,000 + 3,000 – 2,000)		26,000	
		101,760	

Question 13

Note: page 268 O' Loughlin part (ix) date for purchase of equipment should read 01/04/2014

Cash Budget for O Loughlin from January to June

	January	February	March	April	May	June	Total
Receipts							
Cash Sales	51,000	52,800	51,900	52,800	53,100	53,400	315,000
Credit Sales	6,000	34,000	35,200	34,600	35,200	35,400	180,400
	57,000	86,800	87,100	87,400	88,300	88,800	495,400
Payments							
Purchases	52,800	51,900	52,800	53,100	53,400	54,000	318,000
Rent	1,300	1,300	1,300	1,300	1,300	1,300	7,800
Computer		8,000					8,000
Equipment				10,000			10,000
Wages	15,500	15,500	15,500	15,500	15,500	15,500	93,000
Rates					2,400		2,400
Loan						4,050	4,050
	69,600	76,700	69,600	79,900	72,600	74,850	443,250
Net Monthly CashFlow	(12,600)	10,100	17,500	7,500	15,700	13,950	52,150
Loan	16,000						16,000
Opening Cash	3,500	6,900	17000	34,500	42,000	57,700	3,500
Closing Cash	*6,900*	*17,000*	*34,500*	*42,000*	*57,700*	*71,650*	*71,650*

Budgeted Profit and Loss for six months ending 30/06/2014

Sales		525,000
Less Cost of Sales		
Opening Stock	62,000	
Purchases	318,000	
Closing Stock	(54,000)	326,000
		199,000
Expenses		
Interest	200	
Rates	2,400	
Wages	93,000	
Rent	7,800	
Depreciation		
Computer	333	
Equipment	200	103,933
Net Profit		95,067

Question 14

Production Budget	January	February	March	April	May
Sales required	6,000	8,000	10,000	12,000	14,000
Closing Stock	4,800	6,000	7,200	8,400	9,600
Less opening Stock	0	(4,800)	(6,000)	(7,200)	(8,400)
Budgeted Production	10,800	9,200	11,200	13,200	15,200

Raw Materials Purchases Budget					
Unit of production	10,800	9,200	11,200	13,200	15,200
Materials per unit	4	4	4	4	4
Total Material Required	43,200	36,800	44,800	52,800	60,800
Closing stock of raw materials	3,680	4,480	5,280	6,080	
Less opening stock of raw materials	0	(3,680)	(4,480)	(5,280)	
Purchases required in kg	46,880	37,600	45,600	53,600	
Purchases price €	2	2	2	2	
Purchase Cost €	93,760	75,200	91,200	107,200	

Cash Budget for Arthur Ltd from January to June

	January	February	March	April	Total
Receipts					
Cash Sales	60,000	80,000	100,000	120,000	360,000
Credit Sales 1		90,000	120,000	150,000	360,000
Credit Sales 2			90,000	120,000	210,000
	60,000	170,000	310,000	390,000	930,000
Payments					0
Credit Purchases		93,760	75,200	91,200	260,160
Wages	20,000	20,000	20,000	20,000	80,000
Variable Overheads	21,600	18,400	22,400	26,400	88,800
Fixed Overheads	49,000	49,000	49,000	49,000	196,000
Equipment	60,000				60,000
Interest	250	250	250	250	1,000
	150850	181,410	166850	186850	685,960
Net Monthly Cash flow	(90,850)	(11,410)	143,150	203,150	244,040
Loan	50,000				50,000
Opening Cash		(40,850)	(52,260)	90,890	0
Closing Balance	(40,850)	(52,260)	90,890	294,040	294,040

Budgeted Profit and Loss Account for six Months ending 30/04/14

Sales		1,440,000
Less Cost of Sales		
Opening Stock	0	
Purchases/Materials	367,360	
Closing Stock Raw Materials (6,080 *2)	(12,160)	
Closing Stock finished goods (8,400 * 20)	(168,000)	187,200
Gross Profit		1,252,800
Less Expenses		
Wages	80,000	
Variable Overhead	88,800	
Depreciation Equipment (1,000* 4)	4,000	
Fixed Overhead	196,000	
interest	1,000	369,800
Net Profit		883,000

Question 15

Production Budget	January	February	March	April
Sales required	5,500	6,500	7,500	8,500
Closing Stock	3,900	4,500	5,100	5,700
Less Opening Stock	0	(3,900)	(4,500)	(5,100)
Budgeted Production	9,400	7,100	8,100	9,100

Raw Materials Purchases Budget				
Unit of production	9,400	7,100	8,100	9,100
Materials per unit	3	3	3	3
Total Material Required	28,200	21,300	24,300	27,300
Closing stock of raw materials	2,130	2,430	2,730	3,030
Less opening stock of raw materials	0	(2,130)	(2,430)	(2,730)
Purchases required in kg	30,330	21,600	24,600	27,600
Purchases price €	2	2	2	2
Purchase Cost €	60,660	43,200	49,200	55,200

Cash Budget for McLoughlin Ltd from January to June

	January	February	March	April	Total
Receipts					
Cash Sales	82,500	97,500	112,500	127,500	420,000
Credit Sales 1		115,500	136,500	157,500	409,500
Credit Sales 2			77,000	91,000	168,000
	82,500	213,000	326,000	376,000	997,500
Payments					0
Cash Purchases	30,330	21,600	24,600	27,600	104,130
Credit Purchases		30,330	21,600	24,600	76,530
Wages	22,000	22,000	22,000	22,000	88,000
Variable Overheads	18,800	14,200	16,200	18,200	67,400
Fixed Overheads	59,000	59,000	59,000	59,000	236,000
Equipment	48,000				48,000
Interest	200	200	200	200	800
	178,330	147,330	143,600	151,600	620,860
Net Monthly Cash flow	-95,830	65,670	182,400	224,400	376,640
Loan	40,000				40,000
Opening Cash		-55,830	9,840	192,240	0
Closing Balance	-55,830	9,840	192,240	416,640	416,640

Budgeted Profit and Loss Account for six months ending 30/04/16

Sales		1,400,000
Less Cost of Sales		
Opening Stock	0	
Purchases/Materials	208,260	
Closing Stock Raw Materials (3,030 *2)	(6,060)	
Closing Stock finished goods (5,700 * 15)	(85,500)	116,700
Gross Profit		1,283,300
Less Expenses		
Wages	88,000	
Variable Overhead	67,400	
Depreciation Equipment (1,000* 4)	4,000	
Fixed Overhead	236,000	
interest	800	396,200
Net Profit		887,100

Question 16

Moloney

Direct Materials $\frac{100,000}{10,000} = €10$ $\frac{150,000}{15,000} = €10$ $\frac{170,000}{17,000} = €10$ **Variable**

Direct Wages $\frac{70,000}{10,000} = €7$ $\frac{105,000}{15,000} = €5$ $\frac{119,000}{15,000} = €5$ **Variable**

Production Overheads $\frac{97,000}{10,000} = €9.75$ $\frac{142,000}{15,000} = €9.47$ $\frac{160000}{17,000} = €9.41$ **Mixed**

Other Overheads $\frac{63,000}{10,000} = €6.30$ $\frac{78,000}{15,000} = €5.20$ $\frac{84,000}{17,000} = €4.94$ **Mixed**

Administration Expenses €25,000, €25,000, €25,000 **Fixed**

ii) Separate Production O/H into Variable and Fixed

Production O/H	Units	€
High	17,000	160,000
Low	10,000	97,000
Difference	7,000	63,000

$$Variable\ Cost = \frac{63,000}{7,000} = €9.00$$

	50%	75%	85%
Total Prod O/H (€)	97,000	142,000	160,000
Variable Cost (€)	90,000	135,000	153,000
Fixed Cost (€)	7,000	7,000	7,000

10,000 x 9 = 90,000
15,000 x 9 = 135,000
17,000 x 9 = 153,000

iii) Separate other O/H into Variable and Fixed

Production O/H	Units	€
High	17,000	84,000
Low	10,000	63,000
Difference	7,000	21,000

$$Variable\ Cost = \frac{21{,}000}{7{,}000} = €3.00$$

	60%	70%	80%
Total Prod O/H (€)	63,000	78,000	84,000
Variable Cost (€)	30,000	45,000	51,000
Fixed Cost (€)	33,000	33,000	33,000

10,000 x 3 = 30,000
15,000 x 3 = 45,000
17,000 x 3 = 51,000

iv) Prepare Flexible Budget for 95% Activity Level

Activity Level	95%
Units	19,000

Direct Materials	190,000 (19,000 x 10)
Direct Wages	133,000 (19,000 x 7)
Production Costs	178,000 (19,000 x 9 +7000)
Other O/H	90,000 (19,000 x 3 +33000)
Admin Expenses	25,000
Total Cost 80%	616,000

10,000 = 50%
200 = 100%
200 x 95 = 19,000

v) Flexible Budget Using Marginal Costing

		95%	€
Sales (100%)			770,000
Less Variable Costs			
Direct Materials	190,000		
Direct Wages	133,000		
Variable Production Costs	171,000 (19000 x 9)		
Variable Other O/H Costs	57,000 (19000 x 3)		551,000
Contribution			219,000
Less Fixed Costs			
Production O/H	7,000		
Other O/H	33,000		
Administrative Expenses		25,000	65,000
Profit			154,000

770,000 = 100%

616,000 = 80%

Question 17

a) Variable €13
Wages Variable €9

Carter

ii) Separate Production O/H into Variable and Fixed

Production O/H	Units	€
High	34,000	55,000
Low	22,000	37,000
Difference	12,000	18,000

$$Variable\ Cost = \frac{18{,}000}{12{,}000} = €1.50$$

	55%	70%	85%
Total Prod O/H	37,000	46,000	55,000
Variable Cost	€33,000	€42,000	€51,000
Fixed Cost	€4,000	€4,000	€4,000

22,000 @ 1.50 = 33,000
28,000 @ 1.50 = 42,000
34,000 @ 1.50 = 51,000

iii) Separate other O/H into Variable and Fixed

Production O/H	Units	€
High	34,000	27,000
Low	22,000	18,000
Difference	12,000	9,000

$$Variable\ Cost = \frac{9{,}000}{12{,}000} = €0.75$$

	60%	70%	80%
Total Prod O/H	18,000	22,500	27,000
Variable Cost	€16,500	€21,000	€25,500
Fixed Cost	€1,500	€1,500	€1,500

22,000 @ 0.75 = 16,500
28,000 @ 0.75 = 21,000
34,000 @ 0.75 = 25,500

iv) Prepare Flexible Budget for 95% Activity Level

Activity Level	95%
Units	38,000
Direct Materials	494,000 (38,000 x 13)
Direct Wages	342,000 (38,000 x 9)
Production Costs	61,000 (38,000 x 1.50 + 4000)
Other O/H	30,000 (38,000 x 0.75 + 1500)
Admin Expenses	25,000
Total Cost 75%	952,000

22,000 = 55%
40,000 = 100%
40,000 x 95/100 = 38,000

v) Flexible Budget Using Marginal Costing

		95%	€
Sales (100%)			1,269,333.33
Less Variable Costs			
Direct Materials	494,000		
Direct Wages	342,000		
Variable Production Costs (38,000 x 1.5)		57,000	
Variable Other O/H Costs (38,000 x 0.75)		28,500	921,500
Contribution			347,833.33
Less Fixed Costs			
Production O/H		4,000	
Other O/H		1,500	
Administrative Expenses		25,000	30,500
Profit			317,333.33

Question 18

Direct Material €8

Direct Wages €8

Rooney

ii) Separate Production O/H into Variable and Fixed

Production O/H	**Units**	€
High	34,000	141,500
Low	22,000	93,500
Difference	12,000	48,000

$$Variable\ Cost = \frac{48{,}000}{12{,}000} = €4.00$$

	55%	70%	85%
Total Prod O/H	93,500	117,500	141,500
Variable Cost	€ 88,000	€ 112,000	€ 136,000
Fixed Cost	€ 5,500	€ 5,500	€ 5,500

22,000 x 4 = 88,000
28,000 x 4 = 112,000
34,000 x 4 = 136,000

iii) Separate other O/H into Variable and Fixed

Production O/H	Units	€
High	34,000	90,000
Low	22,000	66,000
Difference	12,000	24,000

$$Variable\ Cost = \frac{24{,}000}{12{,}000} = €2.00$$

	55%	70%	85%
Total Prod O/H	66,000	78,000	90,000
Variable Cost	€ 44,000	€ 56,000	€ 68,000
Fixed Cost	€ 22,000	€ 22,000	€ 22,000

22,000 x 2 = 44,000
28,000 x 2 = 56,000
34,000 x 2 = 68,000

iv) Prepare Flexible Budget for 100% Activity Level

Activity Level	100%
Units	40,000
Direct Materials	320,000 (40,000 x 8)
Direct Wages	200,000 (40,000 x 5)
Production Costs	165,500 (40,000 x 4 + 5,500)
Other O/H	102,000 (40,000 x 2 + 22,000)
Admin Expenses	20,000
Total Cost 85%	807,500

55% = 22,000
100% = 40,000

v) Flexible Budget Using Marginal Costing

		100%	€
Sales (100%)			950,000
Less Variable Costs			
Direct Materials	320,000		
Direct Wages	200,000		
Variable Production Costs (40,000 x 4)		€ 160,000	
Variable Other O/H Costs (40,000 x 2)		€ 80,000	760,000
Contribution			190,000
Less Fixed Costs			
Production O/H		€ 5,500	
Other O/H		€ 22,000	
Administrative Expenses		20,000	47,500
Profit			142,500

Question 19

Direct Material	€2
Direct wages	€1.5

Sunny

ii) Separate Production O/H into Variable and Fixed

Production O/H	Units	€
High	85,000	93,500
Low	55,000	71,000
Difference	30,000	22,500

$$Variable\ Cost = \frac{22{,}500}{30{,}000} = €0.75$$

	55%	70%	85%
Total Prod O/H (€)	71,000	82,250	93,500
Variable Cost (€)	41,250	52,500	63,750
Fixed Cost (€)	29,750	29,750	29,750

55,000 @ 0.75 = 41,250
70,000 @ 0.75 = 52,500
85,000 @ 0.75 = 63,750

iii) Separate other O/H into Variable and Fixed

Production O/H	Units	€
High	85,000	168,000
Low	55,000	127,500
Difference	30,000	40,500

$$Variable\ Cost = \frac{40{,}500}{30{,}000} = €1.35$$

	55%	70%	85%
Total Prod O/H (€)	127,500	147,750	168,000
Variable Cost (€)	74,250	94,500	114,750
Fixed Cost (€)	53,250	53,250	53,250

55,000 @ 1.35 = 74,250
70,000 @ 1.35 = 94,500
85,000 @ 1.35 = 114,750

iv) Prepare Flexible Budget for 95% Activity Level

Activity Level	95%
Units	95,000
Direct Materials	190,000 (95,000 x 2)
Direct Wages	142,500 (95,000 x 1.5)
Production Costs	101,000 (95,000 x 0.75 + 2,9750)
Other O/H	181,500 (95000 x 1.35 + 53,250)
Admin Expenses	25,000
Total Cost 80%	640,000

55% = 55,000
100% = 100,000
95% = 95,000

v) Flexible Budget Using Marginal Costing

		95%	€
Sales (100%)			800,000
Less Variable Costs			
Direct Materials	190,000		
Direct Wages	142,500		
Variable Production Costs		71,250	
Variable Other O/H Costs		128,250	532,000
Contribution			268,000
Less Fixed Costs			
Production O/H		€ 29,750	
Other O/H		€ 53,250	
Administrative Expenses		25,000	108,000
Profit			160,000

Question 20

Direct Material	€8
Direct Wages	€6

Williams

ii) Separate Production O/H into Variable and Fixed

Production O/H	Units	€
High	106,250	175,500
Low	62,500	140,500
Difference	43,750	35,000

$$Variable\ Cost = \frac{35{,}000}{43{,}750} = €0.80$$

	50%	75%	85%
Total Prod O/H (€)	140,500	165,500	175,500
Variable Cost (€)	50,000	75,000	85,000
Fixed Cost (€)	90,500	90,500	90,500

62,500 @ 0.8 = 50,000
93,750 @ 0.8 = 75,000
106,250 @ 0.8 = 85,000

iii) Separate other O/H into Variable and Fixed

Production O/H	Units	€
High	106,250	146,000
Low	62,500	93,500
Difference	43,750	52,500

$$\text{Variable Cost} = \frac{52{,}500}{43{,}750} = €1.20$$

	60%	70%	80%
Total Prod O/H	93,500	131,000	146,000
Variable Cost	€75,000	€112,500	€127,500
Fixed Cost	€18,500	€18,500	€18,500

62,500 @ 1.2 = 75,000
93,750 @ 1.2 = 112,500
106,250 @ 1.2 = 127,500

iv) Prepare Flexible Budget for 95% Activity Level

Activity Level	95%
Units	118,750
Direct Materials	950,000 (118,750 x 8)
Direct Wages	712,500 (118,750 x 6)
Production Costs	185,500 (118,750 x 0.8 + 90,500)
Other O/H	161,000 (118,750 x 1.2 + 18,500)
Admin Expenses	70,000
Total Cost 80%	2,079,000

62,500 = 50%
125,000 = 100%

	95%		€
Sales (100%)			2,598,750
Less Variable Costs			
Direct Materials	950,000		
Direct Wages	712,500		
Variable Production Costs (1187,50 x 0.8)		95,000	
Variable Other O/H Costs (118,750 x 1.2)		142,500	1,900,000
Contribution			698,750
Less Fixed Costs			
Production O/H		90,500	
Other O/H		18,500	
Administrative Expenses		70,000	179,000
Profit			519,750

Theory Solutions

1. **What is Management Accounting?**

   Management Accounting is concerned with the provision of information for planning, organising and controlling for the future. It has an internal focus that aids planning and decision making within cost centers and departments. It is not governed or restricted by legislation. CIMA is the world's largest professional body of management accountants.

2. **Differentiate between management accounting and financial accounting**

Management Accounting	**Financial Accounting**
Plans for the future. Example Budget	Records past events. Example Trading Profit and Loss Account
Has no legislation or legal requirements governing it	Strict legislation and accounting standards govern financial accounting FRS's
Aids planning and decision making – internal focus	Internal and external focus. Provides information to mangers, shareholders and other stakeholders
Reports are prepared regularly for managers and are used by cost centers	Reports are usually used once a year referencing the entire business

3. **Explain the purpose of a budget.**
   A budget is a financial plan for a specified period of time in the future. It forecasts all planned expense and revenues. It identifies whether there will be a surplus (more income than expenditure) or a deficit (more expenditure than income).

4. **Differentiate between direct and indirect costs.**
   Direct costs are cost that can be wholly attributed to the production of that good (job) or service. Example: Direct materials. Indirect costs are costs that are in joint usage with

another product (job) or service. Therefore they cannot be wholly attributed to that good (job) or service. Example General Administration.

5. Explain the term prime cost.

Prime Cost is the total of direct material costs, direct labour and direct expenses.

6. Differentiate between variable and fixed overheads.

Variable costs vary with output levels, usage or time. Example light and heat varies with usage. Whereas Fixed Cost stay the same irrespective of output levels or usage. Example Rent of premises.

7. Explain, with examples, 'Controllable' and 'uncontrollable' costs.

Controllable Costs are costs that the manager can control. The manager will make the decision about the amount of the cost or if the cost should be incurred. The manger therefore can be held responsible for variances in these costs. All variable costs are controllable Example Direct Wages.

Uncontrollable Costs are costs that the manager has no control over. Therefore cannot be held responsible for variances in these costs. Example rates to the local County Council are uncontrollable.

8. Explain the term budgetary control.

Every commercial businesses key objective is to maximize profit and minimize costs. A budgetary control helps with this. It involves comparing actual outcomes with the projected (budgeted) outcomes. Differences that arise are indentified and analyzed. This results in improving performances in budgeting into the future.

9. Explain the term principle budget factor.

A principal budget factor limits output thus puts a limit on expansion. An example is Sales demand. This means that there is a limit on the quantity of goods that can be sold at a price that the company requires in order to make a profit.

Other examples

- Availability of capital
- Availability of labour
- Capacity of the plant
- Supply of materials

10. What is a variance?

A variance is the difference in actual cost and budgeted costs. A variance can be an adverse variance or a favourable variance. Variances occur due to price or quantity variance.

11. What is an adverse variance? Give an example of where it may arise.

An adverse variance is when actual costs are greater than the budgeted costs.
Example: increase in price of price of oil.

12. What is a favourable variance? Give an example of where it may arise

A favourable variance is when actual costs are less than budgeted costs.
Example: a reduction in the price of raw materials.

13. What is a master budget?

A Master Budget is a summary budget of all the other budgets. It is prepared after all the other budgets. It shows an outline for the planned period.

A Master Budget for a manufacturing firm should include:

- Budgeted manufacturing account
- Budgeted trading account and profit and loss account
- Budgeted balance sheet

14. What is a capital budget?

A capital budget deals with any planned capital receipts example issue of shares and planned expenditure e.g. purchase of fixed assets. The board of directors is responsible for any decisions regarding the capital budget whilst the financial controller is responsible in seeing that the capital budget is carried out.

15. What does a flexible budget show?

A flexible budget shows whether actual costs were greater than or less than budgeted costs i.e. if any variance occurred.
A flexible budget compares like with like at different output levels.