

Paul Robbins training and consultancy

Management Accounting: Budgeting

Dividing Budgets into Shorter Periods

Exercise 2 **Model Answer**

You have been provided with the budget for the year along with supporting notes and have been asked to calculate the Sales Budget and the budgets that make up the Cost of Production for August.

	<i>Budget for the Year</i>	<i>Budget for August</i>
<i>Units Sold</i>	<i>42,000</i>	<i>3,500</i>
<i>Units Produced</i>	<i>41,000</i>	<i>3,100</i>
	<i>£</i>	<i>£</i>
<i>Sales</i>	<i>399,000</i>	<i>33,250</i>
<i>Costs of Production:</i>		
<i>Materials Used</i>	<i>106,600</i>	<i>8,060</i>
<i>Labour</i>	<i>102,500</i>	<i>7,750</i>
<i>Variable Production Overhead</i>	<i>36,900</i>	<i>2,790</i>
<i>Fixed Overhead</i>	<i>6,600</i>	<i>550</i>
<i>Total Cost of Production</i>	<i>252,600</i>	<i>19,150</i>

Notes

- *Each unit is made from 2 kg of material costing £1.30 per kg*
- *It takes 10 minutes to make each unit*
- *Labour costs are £15.00 per hour*
- *Fixed overhead costs are incurred evenly throughout the year*