

A1. Sparkle

1. How much silver is needed to meet the production forecast?

C: Correct

2. How many gemstones are needed to meet the production forecast?

A: Correct

3. How much silver needs to be purchased?

D: Correct

4. How many gemstones need to be purchased?

C: Correct

5. What is the total purchase budget?

D: Correct

A2. ViewCo

1. What is the total budgeted revenue?

B: Correct

2. How many Smart TVs needed to be purchased?

A: Correct

3. What should the budget labour be?

C: Correct

4. What should the revised fixed cost be?

B: Correct

5. What should the revised profit be?

A: Correct

A3. Reflection

1. What should the sales budget be?

D: Correct

2. What should the budget material cost be?

B: Correct

3. What should the budget labour be?

C: Correct

4. What should the revised fixed cost be?

B: Correct

5. What should the revised profit be?

A: Correct

A4. WrapUp

	Raw material quantity	Number of balls of wool	Number of Buttons
1.	Jumper	$200 \times 7 = 1,400$	$200 \times 2 = 400$
	Cardigan	$400 \times 6 = 2,400$	$400 \times 10 = 4,000$
	Hat	$250 \times 3 = 750$	0
	Total production quantity	4,550	4,400
2.	Opening inventory	260	80
	Closing inventory	240	100
	Total purchase quantity	$4,550 - 260 = 4,290$ 4,530	$4,440 - 80 + 100 = 4,460$ 4,420
3.	Total purchase value	$£8 \times 4,530 = £36,240$	$4,420 \times £0.10 = £442$
	Total purchase value will therefore be £36,682 (£8 per ball of wool x 4,530 balls + £0.10 x 4,420 buttons)		

A5. Tablet Ltd

		Laptop	Tablet	Total company
1	Sales revenue £	$2,000 \times \text{£}500 = \text{£}1,000,000$	$4,000 \times \text{£}300 = \text{£}1,200,000$	$\text{£}2,200,000$
2.	Sales volume(number of items)	2,000	4,000	
	Opening inventory (number of items)	200	50	
	Closing inventory(number of items)	240	40	
	Purchases (number of items)	$2,000 - 200 + 240 = 2,040$	$4,000 - 50 + 40 = 3,990$	
3	Purchase value £	$\text{£}300 \times 2,040 = \text{£}612,000$	$\text{£}240 \times 3,990 = \text{£}957,600$	$\text{£}1,569,600$
4	Sales margin %	$\text{£}500 - \text{£}300 / \text{£}500 = 40\%$	$\text{£}300 - \text{£}240 / \text{£}300 = 20\%$	26.7%

The overall company margin is $40\% \times 2,000/6,000 + 20\% \times 4,000/6,000 = 26.7\%$
NOTE: This is not 28.7% $(\text{£}2,200,000 - \text{£}1,569,600) / \text{£}2,200,000$ as this includes the inventory adjustment.

A6. Cushion Co

The overall material variance is negative with an adverse variance of £3,000, comprising a small favourable price variance of £1,200 being offset by a large negative usage variance of £4,200. Any material price advantage, possibly due to the favourable market conditions, has been offset by using more materials than budgeted. There is a smaller overall labour negative variance of £500. Due to the shortage of skilled labour they have had to pay high rates of pay to attract sufficient calibre of labour, costing £2,800 but this may have resulted in less hours taken to make the cushions.

Note:

Although Cushion Co sold more than budget, this will not make a difference to the variance analysis as this would be accounted for in the sales volume variance. If the budget had been flexed for the actual volume, there would be a total adverse variance of £3,000. (Budget material cost $\text{£}12,000 \times 250/200 = \text{£}15,000$ which is £2,000 higher than the actual cost of £13,000.)

A7. Snap Ltd

By calculating the percentage increases in certain cost categories, comparisons can be made with other data to see whether the assumptions are realistic. For example, a sales price increase can be compared to general inflation, volume growth to market expectation, and material cost increases to volume growth and selling price increases. The board should be challenging the management accountant on a number of issues, including:

1. Is the selling price inflation of 3% (average price of a camera £360.50 in the budget compared to £350 actual price) per annum realistic when general inflation is 2%?
2. How is the volume growth of 10% per annum going to be generated, given the market is competitive, with a decrease in marketing expenditure? (Volume for budget 132,380 cameras compared to 120,345 actual cameras.)
3. Material costs increase only by price inflation (2%), with no allowance for volume increases.
4. Direct labour costs increase only by 10%, allowing for volume growth, but no allowance has been made for wage increases.
5. The utilities estimate only allows for price inflation but not volume growth. Is this realistic?
6. The depreciation is the same as the previous year. Have any fixed assets been bought which might increase the depreciation figure?
7. Factory administration has no allowance for inflation. Have costs savings been included? Are they based on realistic assumptions?
8. The head office charge has been kept at current levels, despite an increase in revenue. They should be calculated at 5% of sales revenue.
9. The management accountant should also check all his workings: the profit figure has been incorrectly calculated.

Notes:

$$2 \ (132,380 - 120,345) / 120,345 \times 100 = 10\%$$

$$3 \ (12,888,950 - 12,636,225) / 12,636,225 \times 100 = 2\%$$

A8. How can the problems with budgeting be overcome by using different types of budgets?

There are many problems in preparing budgets within organizations. These include how time consuming they are to prepare as managers undertake many iterations before a satisfactory outcomes is reached. They can often provoke tensions between managers and departments as budgets are negotiated. Budgets can be demotivating if targets set are too stretching. They can also be subject to games, such as managers building in slack.

There are different methods of budgeting that can promote good behaviours. Top-down budgets are imposed by senior managers. As a result, it can be demotivating for staff. On the other hand, bottom-up budgets can improve communication and co-ordination between departments and manager. By participating in the budget process, staff are more likely to be motivated and bring their knowledge to produce a better budget. This is however time consuming as more staff are involved.