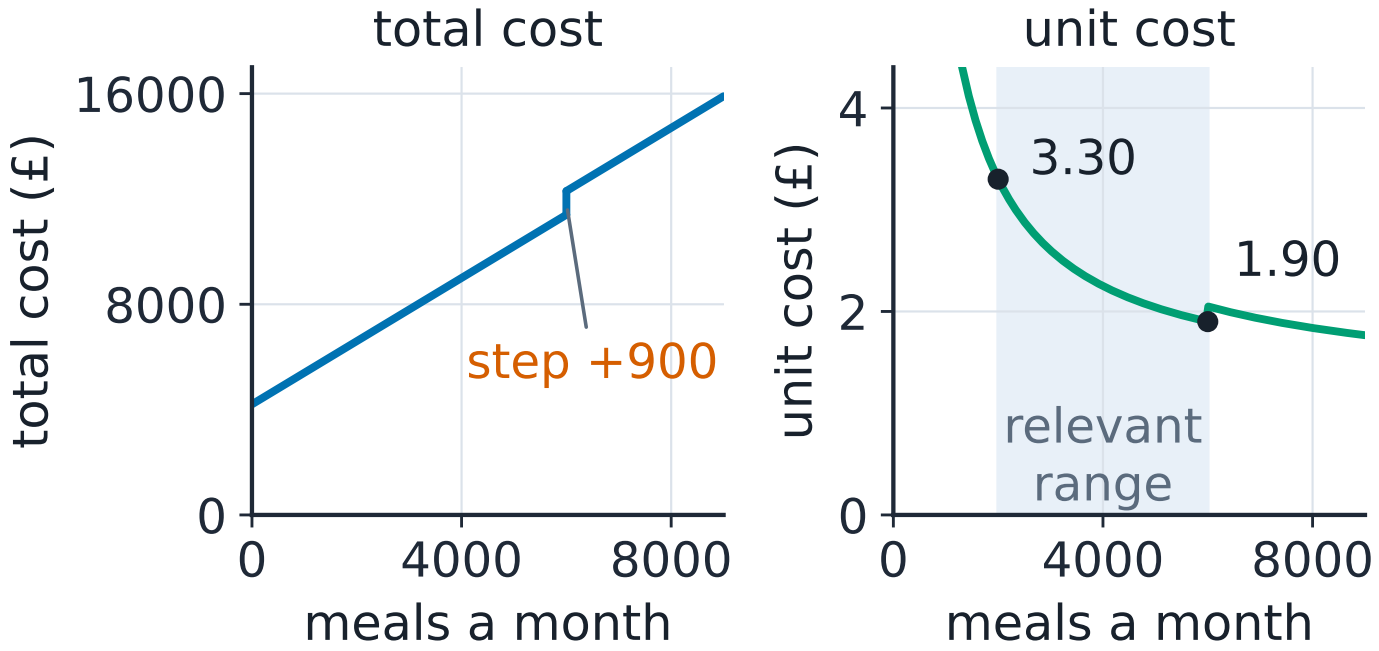
Exercise walk-through

6.4 Budgeting

University Business

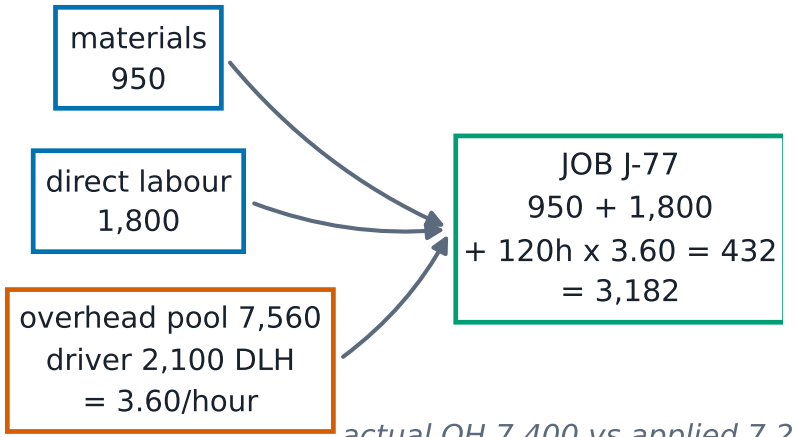
Cost behaviour: date your assumptions



TC = 1.20q + 4,200 with a step at 6,000; unit cost falls with volume.

Costing systems: choose your question

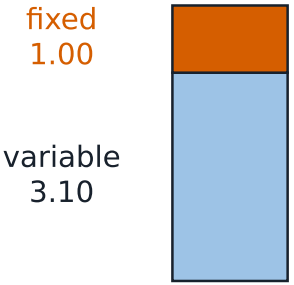
Job J-77: trace, then allocate



actual OH 7,400 vs applied 7,236: under-applied 164

Absorption vs variable

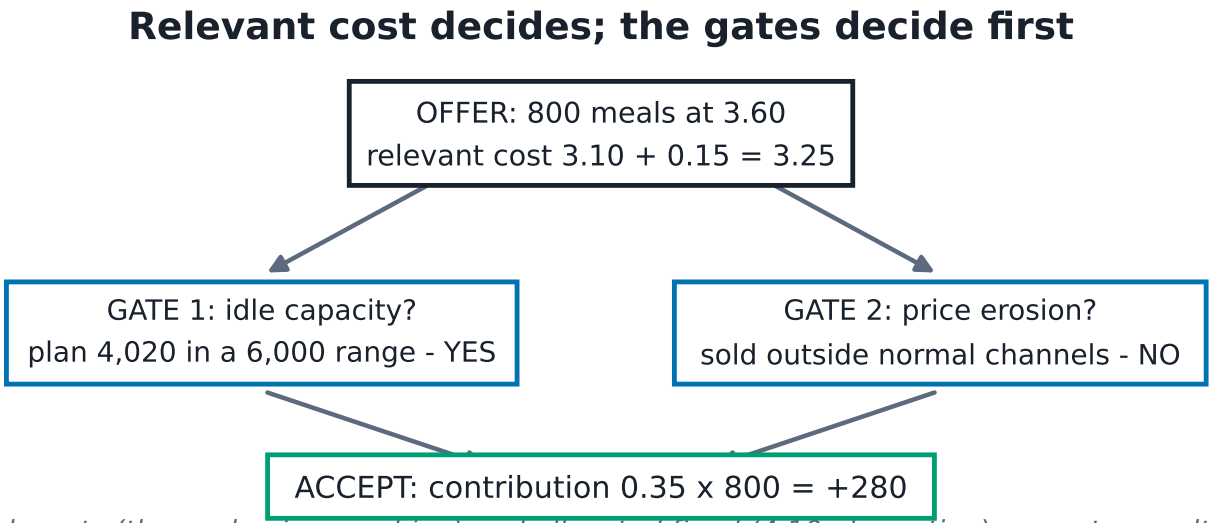
absorption unit 4.10



sell 3,000 of 4,200 made:
absorption 7,200 vs variable 6,000:
1,200 x 1.00 parked

Job J-77 costs 3,182; absorption parks 1,200 of fixed cost in stock.

Relevant costs: only changes get a vote



Pass both gates, then **relevant cost** 3.25 against 3.60 earns +280.

Exercises 2.1·2.2

2.1 Compute July's production budget. [3]

2.2 Compute July's cash receipts. [3]

Exercises 2.1·2.2

2.1 Compute July’s production budget. [3]

2.1

- Closing $= 20\% \times 1{,}100 = 220$; opening $= 20\% \times 1{,}200 = 240$.
- Production $= 1{,}200 + 220 - 240$.
- $= 1{,}180$ units.

2.2 Compute July’s cash receipts. [3]

2.2

- July sales £$= 1{,}200 \times 18 =$ £21,600; June $=$ £18,000.
- $0.75 \times 21{,}600 + 0.25 \times 18{,}000$.
- $=$ £20,700.

exercises.lol exercises.com.cn

Exercises 2.3·2.4

2.3 Compute July's materials purchases in pounds (ignore materials inventory). [2]

2.4 August demand collapses to 700 units. Compute the honest production budget, then explain in two lines the parking that the manager's bonus invites. [4]

Exercises 2.3·2.4

2.3 Compute July's materials purchases in pounds (ignore materials inventory). [2]

2.3

- 1,180 × 4.
- = £4,720.

2.4 August demand collapses to 700 units. Compute the honest production budget, then explain in two lines the parking that the manager's bonus invites. [4]

2.4

- Closing = 20% × 700 = 140; opening 220.
- Honest production = 700 + 140 − 220 = 620 units.
- The bonus invites producing toward 1,180 anyway: ~560 extra units park fixed cost in inventory.
- Reported profit rises while cash falls – the absorption trap meets the target (unit 6.3).

Exercise 2.5

2.5 In two lines: why does the cash budget differ from the profit budget even in a steady month? [2]

Exercise 2.5

2.5 In two lines: why does the cash budget differ from the profit budget even in a steady month? [2]

2.5

- Different measure: receipts/payments vs revenue/expense.
- Different timing: the 25% in transit and payment lags.