

Answer to Question no.1:

Fixed Budget	Flexible Budget
<ol style="list-style-type: none"> 1. This budget is rigid in the sense that it does not change with actual volume of activity. 2. This budget is based upon unrealistic conditions (assumption) that there will not be any change in future conditions. 3. Due to lack of flexibility, the variance cannot be ascertained and it is difficult to compare budgeted and actual performance. 4. If the budgeted and actual activity levels differ significantly, then decision – making process will not yield very sound results. 	<ol style="list-style-type: none"> 1. This budget is not rigid in the sense that it adjusts on the basis of actual volume of activity. 2. This budget is based upon realistic assumption that there will be change in future and one has to adjust accordingly. 3. Due to lack of flexibility, the variance can be ascertained in fruitful manner and future corrective action can be implemented. 4. Even if there is big difference between budgeted and actual activity level, then decision – making process will not fail because the adjustment is made accordingly.

Answer to Question no.2:

Annual Production Budget

Annual budget sales (18,000 + 22,000 + 25,000 + 27,000)	92,000 units
(+) Closing Stock of Finished Goods	8,000 units
(-) Opening Stock of Finished Goods	(-) 6,000 units
Annual budgeted production	94,000 units

Quarter – Wise Production Budget

Budgeted Production

Quarter	70% of Sales of Current Quarter	30% of Sales of Next Quarter	Total
I	70% of 18,000 units = 12,600 units	30% of 22,000 units = 6,600 units	19,200 units
II	70% of 22,000 units = 15,400 units	30% of 25,000 units = 7,500 units	22,900 units
III	70% of 25,000 units = 17,500 units	30% of 27,000 units = 8,100 units	25,600 units
IV	70% of 27,000 units = 18,900 units	7,400 units (Bal. fig.)	26,300 units (Bal. fig.)
Annual Budgeted Production			94,000 units

Answer to Question no.3:

(1) Production Budget

Particulars	Product 1	Product 2	Product 3
Budgeted Sales	9,000 units	15,000 units	12,000 units
(+) Closing Stock	1,000 units	--	2,000 units
(-) Opening Stock	---	(5,000 units)	(4,000 units)
Budgeted Production	10,000 units	10,000 units	10,000 units

(2) Direct Labour Hours Budget

Operation	Product	Units	Time/Unit	Total Time	
I	1	10,000	18 minutes	3,000 hours	15,000 hours
	2	10,000	42 minutes	7,000 hours	
	3	10,000	30 minutes	5,000 hours	
II	1	10,000	---	---	6,000 hours
	2	10,000	12 minutes	2,000 hours	
	3	10,000	24 minutes	4,000 hours	
III	1	10,000	9 minutes	1,500 hours	2,500 hours
	2	10,000	6 minutes	1,000 hours	
	3	10,000	---	---	

(3) Available Labour Hours per worker per quarter

Total number of hours in a quarter (13 weeks × 6 days × 8 hours) 624 hours

(-) Hours lost due to leave, etc. (124 hours)

Net available hours 500 hours

(4) Number of workers required

Operation 1 = 15,000 hours/ 500 hours per worker = 30 workers

Operation 2 = 6,000 hours/ 500 hours per worker = 12 workers

Operation 3 = 2,500 hours/ 500 hours per worker = 5 workers **47 workers**

(5) Direct Labour Cost Budget

Operation	Labour Hours	Rate /Hour	Labour Cost
I	15,000	₹ 16	₹ 2,40,000
II	6,000	₹ 20	₹ 1,20,000
III	<u>2,500</u>	₹ 24	₹ 60,000
	<u>23,500</u>		<u>₹ 4,20,000</u>

Answer to Question no.4:

A. Quantity Budget to be sold in the next period = $\frac{\text{Total Budgeted Sales Value}}{\text{Budgeted Selling Price (p.u)}}$

$$= \frac{1,26,00,000}{90} = 1,40,000 \text{ Units}$$

Budgeted selling price per unit

Particulars	Amount
Material Cost	
P 3 Lbs @ ₹ 6 = 18	
Q 1.5 Lbs @ ₹ 4 = 6	24
Labour Cost	
Machine shop 7 hrs. @ ₹ 4 = ₹ 28	
Assemble section 2.5 hrs. @ ₹ 3.2 = ₹ 8	36
Overheads (33.33 % of Labour cost	12
Total Cost Per Unit of output	72
(+) Profit (1/4th of cost)	18
Budgeted Selling price	90

B. Production Budget

Particulars	Quantity
Budgetary Sales	1,40,000 Unit
Add: Closing Stock of Finished Goods	25,000 Unit
Less: Opening Stock of Finished Goods	20,000 Unit
Budgeted production	1,45,000 unit

Raw Material Purchase Budget

Particulars	Material P	Material Q
Budgetary Consumption of Raw Material	1,45,000 × 3 = 4,35,000	1,45,000 × 1.5 = 2,17,500
(+) Closing stock of Raw material	30,000	66,000
(-) Opening Stock of Raw Material	54,000	33,000
Budgeted Purchase of raw Material	4,11,000	2,50,500
	₹ 6/ lbs	₹ 4 /lbs
	24,66,000	10,02,000

C. Available hours per workers per year = 52 weeks × 8 hours × 5 days – (96+80+64)
= **1,840 Days**

Machine Shop

Labour hours available = 600 × 1,840 = 11,04,000 hrs.

Labour hour Required = 1,45,000 × 7 = 10,15,000 hrs.

Excess Labours = 89,000 hrs. (11,04,000 - 10,15,000)

Assemble Section

Labour hours available = 180 × 1,840 = 3,31,200 hrs.

Labour hour Required = 1,45,000 × 2.5 = 3,62,500 hrs.

Defficiency Labours hours = 31,300 hrs.

Comments:-

Some of the workers may be transferred from machine shop to assemble section. So that the budgeted production may be achieved. If required, the management may also arrange suitable training programme for this purpose.

If Inter – Department transfer is not possible, it is advised to the management to appoint new workers in assemble section. So, that the budget production may be achieved.