

Budgetary Control

Time Allowed: 35 Minutes

TEST – 5 (Solution)

Total Marks: 20 Marks

Answer to Question no.1:

ADVANTAGES OF BUDGETARY CONTROL

- 1) **Very Powerful Technique:** - Budgetary Control is regarded as very powerful technique for controlling the business expenses. It also provides the necessary justification for various types of expenses, e.g., if huge funds are allocated for advertisement in such a case, its justification can be linked with the achievement of sales. Similar examples can be given for other activities like production, research, accounts, finance, etc.
- 2) **Effective utilization of available resources:-** Resources are always limited, howsoever rich or big the organization may be. Budgetary Control is helpful in making effective utilization of available resources like money, material, labour, machines, space, etc. This is so because various budgets like production budget, sales budget, Material Purchase Budget, etc. takes into consideration the impact of available resources for achievement of targets.
- 3) **Attitude of Cost Control and Cost Reduction:-** The technique of budgetary control is very helpful in developing the attitude of cost control and cost reduction among various employees of the business. Profit may be increased either by increasing sales or by decreasing unnecessary expense. The option of increasing the sales may not always be feasible. However, the other option if decreasing the unnecessary expenses may always be exercised with the help of technique of budgetary control.
- 4) **Conclusion:-** Budgetary control leads to:-
 - a) Effective utilization of available resources.
 - b) Effective conduct of business activities.
 - c) Effectively increasing the profit by controlling and reducing the expenses.

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

<u>Operation</u>	<u>Labour Hours</u>	<u>Rate /Hour</u>	<u>Labour Cost</u>
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>