

**Source A for Question 1**

The sales budget, in units, for T Limited for the six months to 31 August 2025 is as follows:

March	April	May	June	July	August
1120	1280	1220	1100	1200	1140

Further information is also available.

- 1 It is the company's policy to maintain an inventory level of:
  - finished goods equal to 25% of the following month's budgeted sales
  - direct materials equal to 10% of the following month's production needs.
- 2 Direct materials required per unit are:
  - 4 kilos at \$10 per kilo.



1 Read Source A in the insert.

(a) Explain **two** advantages of preparing a budget.

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[4]

(b) Prepare the following budgets for T Limited for the months of **April, May** and **June**.

(i) production budget (in units)

	April	May	June
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[4]

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Question	Answer	Marks																									
1(a)	<p><b>Explain <u>two</u> advantages of preparing a budget.</b></p> <p>It sets a target for the departmental managers to achieve. <b>(1)</b> Every manager is responsible for the target set for each of them and they will strive to achieve the target. <b>(1)</b>  This will motivate the employees. <b>(1)</b> They have the sense of direction, and they know what is expected from them. <b>(1)</b>  It is good for planning. <b>(1)</b> It facilitates the planning for resources and finance. <b>(1)</b></p> <p><b>Max 2 advantages, 2 marks each</b>  <b>Accept other valid responses.</b></p>	<b>4</b>																									
1(b)(i)	<p><b>Prepare the following budgets for T Limited for the months of <u>April</u>, <u>May</u> and <u>June</u>.</b></p> <p><b>production budget (in units)</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 10%; text-align: center;">April</th> <th style="width: 10%; text-align: center;">May</th> <th style="width: 10%; text-align: center;">June</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Closing inventory (25% of next month's sales)</td> <td style="text-align: center;">305</td> <td style="text-align: center;">275</td> <td style="text-align: center;">300</td> <td style="text-align: right;"><b>(1) row</b></td> </tr> <tr> <td>Sales</td> <td style="text-align: center;">1 280</td> <td style="text-align: center;">1 220</td> <td style="text-align: center;">1 100</td> <td style="text-align: right;"><b>(1) row</b></td> </tr> <tr> <td>Opening inventory (25% of current month's sales)</td> <td style="text-align: center;"><u>(320)</u></td> <td style="text-align: center;"><u>(305)</u></td> <td style="text-align: center;"><u>(275)</u></td> <td style="text-align: right;"><b>(1) row</b></td> </tr> <tr> <td>Production (in units)</td> <td style="text-align: center;"><u>1 265</u></td> <td style="text-align: center;"><u>1 190</u></td> <td style="text-align: center;"><u>1 125</u></td> <td style="text-align: right;"><b>(1) OF row</b></td> </tr> </tbody> </table>		April	May	June		Closing inventory (25% of next month's sales)	305	275	300	<b>(1) row</b>	Sales	1 280	1 220	1 100	<b>(1) row</b>	Opening inventory (25% of current month's sales)	<u>(320)</u>	<u>(305)</u>	<u>(275)</u>	<b>(1) row</b>	Production (in units)	<u>1 265</u>	<u>1 190</u>	<u>1 125</u>	<b>(1) OF row</b>	<b>4</b>
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1(b)(ii)	<p><b>Prepare the following budgets for the months of <u>April</u>, <u>May</u> and <u>June</u>.</b></p> <p><b>purchases budget (in kilos and dollars)</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 15%; text-align: center;">April</th> <th style="width: 15%; text-align: center;">May</th> <th style="width: 10%; text-align: center;">June</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Closing inventory (10% of next month's production need)</td> <td style="text-align: right;">476}</td> <td style="text-align: right;">450}{(1)O F</td> <td style="text-align: right;">474</td> <td style="text-align: right;">W1 (1)</td> </tr> <tr> <td>Production required (4 kilos per unit produced in current month)</td> <td style="text-align: right;">5 060</td> <td style="text-align: right;">4 760</td> <td style="text-align: right;">4 500</td> <td style="text-align: right;">(1)OF row</td> </tr> <tr> <td>Opening inventory (10% of current month's production need)</td> <td style="text-align: right;">(506)</td> <td style="text-align: right;">(476)</td> <td style="text-align: right;">(450)</td> <td style="text-align: right;">(1) OF row</td> </tr> <tr> <td>Total direct materials purchased (in kilos)</td> <td style="text-align: right; border-top: 1px solid black;">5 030</td> <td style="text-align: right; border-top: 1px solid black;">4 734</td> <td style="text-align: right; border-top: 1px solid black;">4 524</td> <td style="text-align: right;">(1)OF row</td> </tr> <tr> <td>Total purchases (\$10 per kilo)</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">\$50 300</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">\$47 340</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">\$45 240</td> <td style="text-align: right;">(1)OF row</td> </tr> </tbody> </table> <p><b>W1</b> July's production <math>1\,200 + (25\% \times 1\,140) - (25\% \times 1\,200) = 1\,185</math> units, <math>1\,185 \times 4 \times 10\% = 474</math></p>		April	May	June		Closing inventory (10% of next month's production need)	476}	450}{(1)O F	474	W1 (1)	Production required (4 kilos per unit produced in current month)	5 060	4 760	4 500	(1)OF row	Opening inventory (10% of current month's production need)	(506)	(476)	(450)	(1) OF row	Total direct materials purchased (in kilos)	5 030	4 734	4 524	(1)OF row	Total purchases (\$10 per kilo)	\$50 300	\$47 340	\$45 240	(1)OF row	<b>6</b>
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1(d)	<p><b>Advise the directors which option they should choose. Justify your answer.</b></p> <p><b>Option 1</b>            Reduced production cannot satisfy the customers and may lose the loyal customers <b>(1)</b>            The reputation of the company may be jeopardised <b>(1)</b>            Reduced production may leave some capacity idle <b>(1)</b>            The shortage in supply is only temporary <b>(1)</b></p> <p><b>Option 2</b>            A new supplier may not be reliable <b>(1)</b>            The quality of direct materials may not be guaranteed <b>(1)</b>            The increased cost may be acceptable if a gross profit is achieved / there may be a fall in profit <b>(1)</b>            T Limited may change the inventory policy to increase inventory in advance <b>(1)</b></p> <p><b>Max 6 for comments</b></p> <p><b>Decision supported with a comment (1)</b></p> <p><b>Accept other valid responses.</b></p>	7