

## Strategic Management Accounting Tutorial

1. Summarized Statement of Financial Position of Saliya PLC as at 31<sup>st</sup> December 2017 was as follows:

<b>Saliya PLC</b>					
<b>Statement of Financial Position as at 31.12.2017</b>					
		Rs.'000			Rs.'000
Stated capital & reserves		2,500	Fixed assets		1,400
Creditors			Stocks:		
Supplies of November	500		Raw Material	300	
Supplies of December	<u>750</u>	1,250	Finished goods	<u>700</u>	1,000
Income tax payable		30	Debtors:		
Proposed dividend		50	Sales of November	100	
			Sales of December	<u>300</u>	400
			Trade Investment		200
			Cash & bank		<u>830</u>
		<u><b>3,830</b></u>			<u><b>3,830</b></u>

The company has produced a plan for its activities for the first four months of 2018. This can be summarized in the form of a budgeted income statement for the period as follows:

<b>Saliya PLC</b>			
<b>Budgeted Income Statement for the four months ending 30<sup>th</sup> April 2018.</b>			
			Rs.'000
Sales – Cash sales	2200 x 225		495
Credit sales	8800 x 250		2200
	11000		2695
Less: Cost of Sales			
Material	1100		
Labour	275		
Variable Overhead	550		1925
			770
Less: Fixed overhead			450
Net trading profit before tax			320
Less: Income tax			50
Net trading profit for the four months			270

You are given the following information.

### I. Sales

The company's trade is seasonal and its forecasted sales for the first half of the year 2018 (of which the current budget is for first four months) are:

Months	Sales (Unit)		Months	Sales (Unit)
January	2000		May	6000
February	2000		June	8000
March	3000		July	10000
April	4000			<b>35000</b>

Twenty per cent of the monthly sales will be for cash and the rest 80 per cent will be for credit basis.

### II. Stocks:

(a) **Raw material:**

A stocks of raw material, equal to the next month production requirement, will be maintained. (One unit of raw material is required for the manufacture of one unit of finished goods).

(b) **Finished goods:**

Finished goods equal to the requirements of the next two months sales will be maintained as stocks. Finished goods are valued at prime cost.

(c) **Work-in-progress:**

There will be no work-in-progress at the end of a month.

### III. Purchasing/Selling conditions

(a) Payments for raw material are to be made on average two months after the delivery

(b) Debtors will pay their dues as follows:

50% of the sales value during the month of sales

30% of the sales value during the following month

20% of the sales value during the second month after sales.

**IV. Other Payments.**

- (a) Direct wages and variable overheads are paid for during the month in which they are incurred.
- (b) Fixed overhead includes Rs.150,000 of depreciation. Fixed overhead is incurred in equal amounts each month and is paid in the month in which it is incurred.
- (c) Income tax for the Quarter ending 31<sup>st</sup> March of the year is estimated at Rs.40,000 and it is to be paid on 31<sup>st</sup> March 2015.

V. It is expected to sell the trade investment at its market value of Rs.250,000 during the month of January.

VI. It is expected to pay the proposed dividends during the month of February.

You are required to:

- a. Prepare the following for the first four months of 2018
  - I. A production budget (in quantities)
  - II. Raw material purchasing budget (in quantities)
  - III. A cash budget (monthly)
- b. Prepare the budgeted Statement of Financial Position as at 30<sup>th</sup> April, 2018.