Question 1

(a) Explain the contribution of budgets in strategy formulation and implementation process.
(05 Marks)

(b) Alpha Ltd. manufactures a product, ‘X’ that uses the following direct inputs.

		Rs.
Direct materials	10 kgs @ Rs.40 per kg	400
Direct manufacturing labour	2 hours @ Rs.150 per hour	300
Total direct cost		700

In addition to the direct inputs, Alpha Ltd. has to incur set-up costs (manufacturing overheads) of Rs.690, 000 per quarter which is absorbed based on the number of batches.

Additional information:

- Alpha Ltd. does not maintain direct material inventory.
- Company makes ‘X’ in batches of 100 units.
- Alpha expects to sell 23,500 units of ‘X’ in the first quarter.
- Alpha makes a provision of 6% for the rejects (poor quality) of the final production.

Required:

a) Prepare Production budget for the first quarter of the next year. (02 Marks)

b) Compute the budgeted total unit cost of ‘X’ for the first quarter of the next year.
(02 Marks)

c) Managers of Alpha Company are planning to introduce kaizen costing. They budget for a 1% decrease in materials quantity and direct manufacturing labour-hours *and* a 3% decrease in set-up time per unit for the second quarter. Assume that at present the set-up time is two hours per batch.
Calculate the revised budgeted unit cost for the second quarter of next year.

(04 marks)

d) The management of the company recalls how a previous attempt aimed at a drastic reduction of cost and labour time failed in the past and hence, do not want to take a chance this time when implementing these proposed changes. However, they are planning to intensify these changes every quarter in order to reduce the cost.
Discuss how the reductions in material and time mentioned in part (iii) can be accomplished by Alpha Company and the challenges faced in pursuing these proposed changes.

(07 marks)

Question 2

Mahaweli Company buys and sells one item called 'X' Company's future estimates are as follows.

(i)	Year 2015	-	August	September	October	November
	Sales units	-	5,000	7,000	10,000	15,000
	Selling price	-	Rs. 100 per unit			
(ii)	Stock policy	-	Equal to 20% of next month sales.			
(iii)	Sales policy	-	From the total sales 50% in cash, balance 50% on credit.			

(iv) Collection from credit sales;

- 50% after one month
- 40% after two month
- 10% bad debt (Assume bad debt allocation has been done at the beginning of the year)

(v) Expected monthly expenses; payable in the same month

-Administration -Rs. 60,000 including Rs. 10,000 depreciation
-Selling -Rs. 25,000 plus 10% on gross sales income

(vi) Goods purchased from the supplier at Rs. 60 per unit. Based on the agreement, payment should be made after one month. (Credit period one month)

(vii) Balances as at 01st August 2015.

Cash and bank balance	-	Rs. 50,000
Finish goods	-	1000 units Rs. 70,000
Trade debtors	-	from June sales Rs. 100,000
	-	from July sales Rs. 270,000
Trade creditors	-	Rs. 300,000

Required;

(a) Purchase budget (in units) for the months of August, September and October, year 2015 in columnar form.

(b) Cash budget for the months of August, September and October, year 2015 in columnar form.