ISCTE Business School
Instituto Universitário de Lisboa

2nd Year Management

Management Accounting II

VIVA CASE
(ANNUAL BUDGET)

SCHOOL YEAR 2015/2016

VIVA COMPANY

Viva Company produces and markets several products in a production process which is presented as follows:

- The Material X is transformed in a Section I, creating Product A which, besides being sold on the market, is also used in the production of the Product B, being transformed, together with the Material Y, in a Section II;
- As a result of the production of this Product B, the By-product C is obtained in a joint production in the proportion of 10%;
- Besides the main Sections which were mentioned, the company also has two Other Sections (Section III and Section IV), a Raw Materials Warehouse (RMW) and a Finished Products Warehouse (FPW).

In its planning practices the company draws up the Annual Budget (divided into two semesters), where the goals to reach are set by the managers and are identified per activities of the value chain. Today, the Budget for the year N is being processed. The following data are already available:

Sales:

Sales Programme				
	Selling Price	1st Sem.	2nd Sem.	Total
Product A	70 €	12 000	15 000	27 000
Product B	120 €	6 000	8 000	14 000
By- product C	20 €	600	550	1 150

The sales are uniform within each semester.

Consumptions and Unit Costs:

Forecasted Unit Consumptions				
	MU	Purchase Costs	Product A	Product B
1. Materials				
Material X	Ton	20 € /ton	1.2	
Material Y	Ton	30 €/ton		0.8
Product A	Ton			0.4
2. Conversion Costs				
Section I	Lh		3	
Section II	Mh			2
By- Product C				0.1

Sections Costs:

Forecasted Sections Costs								
	MU	Unit Cost	Section I	Section II	Section III	Section IV	RMW	FPW
1. Direct Costs								
- Variable								
Lighting and heating	Kw	0.1 €	6	4	2			
Other supplies and servives	€		2	1.5	1			
- Fixed								
Salaries	€		12 000	8 000	4 000	5 000	3 000	2 000
Social expenses	€							
Depreciation	€		20 000	30 000	6 000	1 115.85	2 857.5	900

The variable forecasted (budgeted) costs are proportional to the activity of each one of the sections. The fixed costs refer to the forecasted (budgeted) monthly values.

The Supporting Sections costs are allocated as follows:

- Section III – It is expected that it works 0.1 Lh per each Lh of work of the Section I and 0.2 Lh per each Mh of work of the Section II.

- Section IV – It is allocated to the remaining Manufacturing Sections, proportionally to their direct costs.

Allocation Criteria of the Warekouse costs are the following:

- RMW – To purchases, according to the quantity
- FPW – To sales of the main products, according to the quantity

Overheads:

Objective of Fixed Administrative and Selling (Distribution) Costs (month)				
			Administrative Services	Selling (Distribution)
Salaries			20 000 € monthly	6 000 € monthly
Social Expenses				
Depreciations			15 000 € monthly	5 000 € monthly

Social Expenses of the Company:

- On the global salaries of the company (Manufacturing and Non-Manufacturing) (paid in the very month), social expenses will have an effect estimated in 60% of the salaries, as follows:

Holiday pay	Equivalent to a month of salaries	To pay in June
Christmas pay	Equivalent to a month of salaries	To pay in November
Social Security (expenses of the employers)	23,75% on Salaries and Pays	To pay in 30 days
Other expenses	The remaining	Prompt payment

Variable Selling Expenses:

- Expenses of this nature corresponding to 4% of the sales value of the Products A and B are foreseen.

Stocks Policies:

Of Products:

- Product A – it is expected to have at the end of each semester one month of the sales of the following semester (Do consider that the sales forecasted for N+1 are equal to those of January of N);
- Product B – it is expected to have at the end of the year 1.5 months of the annual average sales. It is forecasted the uniform production over the course of the year.

Of Materials:

- For all materials it is expected to have, at the end of the semester, 1.5 months of consumptions of the very semester.

Objectives and data of financial nature:

Objectives of Term Receipts (TR) and Term Payments (TP):

Sales of the Products A and B	60 days
Sales of the By-Product C	Prompt Payment
Purchases of Materials	30 days
Variable Selling Expenses	15 days
Lighting and heating	45 days
Supplies and Services	90 days
Debts of Previous Years	During the 1st Semester
Credits of Previous Years	During the 1st Semester

Other Data:

- The company intends to have as cash available an average balance of 50 000 € over the course of the year;
- The present Medium Long Term bank loan is paid off on 31 October of each year. The interests are paid at the same time of the capital refund at the annual rate of 3%;
- The company granted a credit line with the banks in the short term, to use for six-monthly if necessary and to pay off when appropriate and possible, at the annual rate of 8%. The interests will be paid in the semester which follows the occasional uses;
- In case of cash surplus, the company can make short-term investments at the annual rate of 3%. Interests are receivable in the semester which follows the occasional investments.

Investments and Disinvestments:

- It is forecasted (budgeted) to sell in the 2nd semester the useless equipment (25 000 €), which corresponds to the accounting residual values. It is also forecasted (budgeted) to acquire in the 1st semester a new manufacturing equipment (150 000 €). It will work only in the next year.

Opening Balance Sheet:

Assets		**Equity**	
Fixed tangible assets (net)	7 000 000.00		**5 527 930.29**
Stocks			
Material X	87 200.00		
Material Y	47 700.00		
Product A	58 719.16	**Liabilities**	
Product B	264 256.13	MLT (Loan)	1 500 000.00
		ST	
Accounts receivable (Debtors)	350 000.00	MLT Loan	300 000.00
		Debts	500 945.00
Cash	30 000.00	Interests payable	9 000.00
		Total Liabilities	**2 309 945.00**
Total Assets	**7 837 875.29**	**Total Equity +Liabilities**	**7 837 875.29**

Notes:

The stocks correspond to the following quantities:

Material X	4 000 tons
Material Y	1 500 tons
Product A	1 100 tons
Product B	2 750 tons

BASED ON THESE DATA, IT IS REQUIRED TO DRAW UP THE ANNUAL BUDGET OF THE VIVA COMPANY FOR THE YEAR N.