

# Core components of a Master Budget for Manufacturing –

## Direct Materials Budget

A manufacturing operation buys its raw materials and uses the raw material to manufacture its product(s). To allow the organisation to maintain accurate inventory records and to ensure accurate estimates across its production life cycle, the correct quantity should be purchased.

The following is an example in how to prepare a direct materials budget

Required: from the following information given by CM Pty Ltd, prepare a Direct Materials budget in units and dollars for January – May 20XX

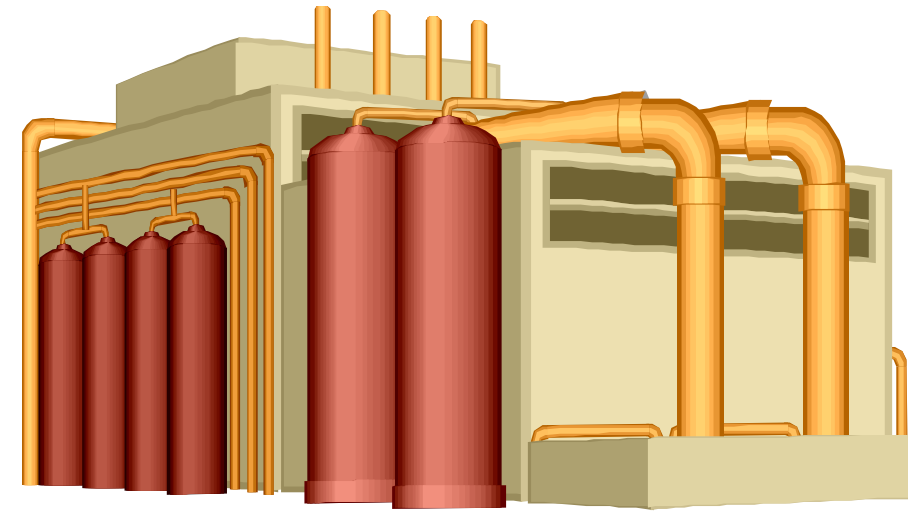
Year 20XX	Jan	Feb	Mar	Apr	May	Jun	Jul
<b>Projected Sales</b>	Units	Units	Units	Units	Units	Units	Units
	1 000	2 000	1 000	1 500	5 000	5 500	6 000

The opening stock of raw materials is equal to 10% of the following month's sales  
Purchase price is \$5 per unit

### Solution:

#### CM Pty Ltd – Direct Materials Budget 20XX

Year 20XX	Jan	Feb	Mar	Apr	May	Jun
<b>Sales</b>	1 000	2 000	1 000	1 500	5 000	5 500
<b>Add closing stock</b>	100	150	500	550	600	
	1 100	2 150	1 500	2 050	5 600	
<b>Less opening stock</b>	200	100	150	500	550	600
<b>Purchase in units</b>	900	2 050	1 350	1 550	5 050	
<b>Multiply by the purchase price</b>	X \$5	X \$5	X \$5	X \$5	X \$5	
<b>Required purchase</b>	<b>\$4 500</b>	<b>\$10 250</b>	<b>\$6 750</b>	<b>\$7 750</b>	<b>\$25 250</b>	



#### Notes:

- (i) Closing stock of one month becomes the opening stock of the next month
- (ii) Opening stock of June: 10% X 6 000 (July sales)
- (iii) Opening stock for January is 10% of February sales
- (iv) A direct materials budget is always prepared on the cost price of units and not on the selling price