
EXERCISE 3 PREPARATION OF STATEMENT OF PRODUCTION, RAW MATERIAL CONSUMED AND GROSS SALES

Structure

- 3.1 Introduction
 - Objective
- 3.2 Statement of Production, Raw Material Consumed and Gross Sales
 - 3.2.1 Practical Exercise
 - 3.2.2 Assumptions
- 3.3 Activity
- 3.4 Important Considerations
- 3.5 Answer to Activity

3.1 INTRODUCTION

For preparing a project report we need to know installed and average capacity utilisation, figures of production, raw material consumed, gross sales etc. If these figures are known with precision, future projections regarding investment proposal can be quite authentic. For this purpose we prepare statement of production, raw material consumed, and gross sales. This statement helps in preparing other financial reports relating to the project.

Objective

After going through this exercise, you should be able to:

- prepare the statement of production, raw material consumed and gross sales.

3.2 STATEMENT OF PRODUCTION, RAW MATERIAL CONSUMED AND GROSS SALES

As already stated this statement is prepared to calculate total cost of raw material consumed and total sales. Following format (indicating projections for five years) may be used to prepare such a Statement:

Format of Statement of Production, Raw Material Consumed and Gross Sales

S.No.	Particulars	I	II	III	IV	V
1.	Installed Capacity in KG per annum					
2.	No. of working days per annum					
3.	Average Capacity Utilisation					
4.	Projected Production in KG p.a.					
5.	Raw Material required in KG					
6.	Cost of Raw Material per KG in Rs.					
7.	Total Cost of Raw Material Consumed (Rs. in lacs)					
8.	Selling price per KG in Rs.					
9.	Total Sales (Rs. in lacs)					

3.2.1 Practical Example

Let us now have a look at the practical example. Before attempting to prepare the statement, we should know the assumptions based on which the statement shall be prepared.

3.2.2 Assumptions

Following assumptions are to be used for preparing the statement:

- *Installed capacity of the plant Purchased* : to produce 2,00,000 kgs. of food item M in a year.
- *Number of working days in a year* : 300 days.
- *Capacity utilisation in the first year* : 50% of the installed capacity.
- *Capacity utilisation in the subsequent years* : 60% (IInd year), 70% (IIIrd year; and 80% (IVth and subsequent years).

Note: Maximum capacity utilisation will be 80% of the installed capacity.

- *Consumption of raw material* : Actual consumption + 1% for wastage.
- *Cost of raw material* : Rs. 53 per Kg.
- *Selling price of the food item M* : Rs. 106 per Kg.

Based on the above assumptions, statement of production, raw material consumed, and gross sales has been prepared as under. In this statement projections for first year only have been calculated.

Statement of Production, Raw Material Consumed and Gross Sales

S. No.	Particulars	I
1.	Installed Capacity in KG per annum	2,00,000
2.	No. of working days per annum	300
3.	Average Capacity Utilisation	50
4.	Projected Production in KG p.a.	1,00,000
5.	Raw Material required in KG (with 1% wastage)	1,01,000
6.	Cost of Raw Material per KG in Rs.	53
7.	Total Cost of Raw Material Consumed (Rs. in lacs)	53.53
8.	Selling price per KG in Rs.	106
9.	Total Sales (Rs. in lacs)	106.00

3.3 ACTIVITY

On the basis of statement given above for the first year, calculate projections for the next four years. Assumptions given above are to be used in preparing the statement.

Statement of Production, Raw Material Consumed and Gross Sales

Preparation of
Statement of
Production, Raw
Material Consumed
and Gross Sales

S. No.	Particulars	I	II	III	IV	V
1.	Installed Capacity in KG per annum	2,00,000	—	—	—	—
2.	No. of working days per annum	300	—	—	—	—
3.	Average Capacity Utilisation	50	—	—	—	—
4.	Projected Production in KG p.a.	1,00,000	—	—	—	—
5.	Raw Material required in KG	1,01,000	—	—	—	—
6.	Cost of Raw Material per KG in Rs.	53	—	—	—	—
7.	Total Cost of Raw Material Consumed (Rs. in lacs)	53.53	—	—	—	—
8.	Selling price per KG in Rs.	106	—	—	—	—
9.	Total Sales (Rs. in lacs)	106.00	—	—	—	—

3.4 IMPORTANT CONSIDERATIONS

1. The assumptions used in the first year are to be used in the subsequent years.
2. Keeping in view the product to be manufactured, the assumptions should be made.
3. Installed capacity of the plant may be obtained from the quotation given by the supplier of the plant.
4. Utilisation of the installed capacity in the first and subsequent years should be quite realistic. It may be noted that under no circumstances 100% utilisation of the installed capacity can be achieved. Therefore, assumption of 100% utilisation shall be an invalid assumption.
5. Cost of raw material and selling price of the manufactured product should be based on market survey.

3.5 ANSWER TO ACTIVITY

Statement of Production, Raw Material Consumed, Gross Sales

Sl. No.	Particulars	I	II	III	IV	V
1.	Installed Capacity in KG per annum	200000	200000	200000	200000	200000
2.	No. of working days per annum	300	300	300	300	300
3.	Average Capacity Utilisation	50	60	70	80	80
4.	Projected Production in KG p.a.	100000	120000	140000	160000	160000
5.	Raw Material required in KG (With 1% wastage)	101000	121200	141400	161600	161600
6.	Cost of Raw Material per KG in Rs.	53	53	53	53	53
7.	Total Cost of Raw Material Consumed (Rs. in lacs)	53.53	64.24	74.94	85.65	85.65
8.	Selling price per KG in Rs.	106	106	106	106	106
9.	Total Sales (Rs. In lacs)	106.00	127.20	148.40	169.60	169.60