9. **Flexible Budgeting**

O'Reilly manufactures a component for the electronic industry. The following flexible budgets have already been prepared for 55%, 70% and 85% of the plant's capacity:

Output levels	**55%**	**70%**	**85%**
Units	11,000	14,000	17,000
Costs	**€**	**€**	**€**
Direct materials	143,000	182,000	221,000
Direct wages	99,000	126,000	153,000
Production overheads	74,000	92,000	110,000
Other overhead costs	36,000	45,000	54,000
Administration expenses	29,000	29,000	29,000
	381,000	474,000	567,000

Profit is budgeted to be 22% of sales.

You are required to

(a) (i) Classify the above costs into fixed, variable and mixed costs.

(ii) Separate production overheads into fixed and variable elements.

(iii) Separate other overhead costs into fixed and variable elements.

(iv) Prepare a flexible budget for 96% activity level.

(v) Restate the budget, using marginal costing principles, and show the contribution.

(b) Explain Principal Budget Factor. Why prepare a flexible budget and what does it show?

(80 marks)