

**QUESTION 9**

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- |                         |            |
|-------------------------|------------|
| (i) Direct materials    | ① Variable |
| Direct wages            | ① Variable |
| Production overheads    | ② Mixed    |
| Other overhead costs    | ② Mixed    |
| Administration expenses | ② Fixed    |

<b>(ii) Production overheads</b>	<b>Units</b>	<b>Total cost</b>
	€	€
High	17,000	110,000
Low	<u>11,000</u>	<u>74,000</u>
Difference	<u>6,000</u>	<u>36,000</u>

The variable cost of 6,000 units is €36,000, therefore the variable cost per unit is €6. ⑥

	€	€	€
	<b>55%</b>	<b>70%</b>	<b>85%</b>
Total production overhead cost	74,000	92,000	110,000
Variable cost (Units x €6)	<u>66,000</u>	<u>84,000</u>	<u>102,000</u>
Therefore fixed cost	<u>8,000</u>	<u>8,000</u>	<u>8,000</u> ⑥

<b>(iii) Other overhead costs</b>	<b>Units</b>	<b>Total cost</b>
	€	€
High	17,000	54,000
Low	<u>11,000</u>	<u>36,000</u>
Difference	<u>6,000</u>	<u>18,000</u>

The variable cost of 6,000 units is €18,000, therefore the variable cost per unit is €3 ⑥

	€	€	€
	<b>55%</b>	<b>70%</b>	<b>85%</b>
Total other overhead costs at	36,000	45,000	54,000
Variable cost (Units x €3)	<u>33,000</u>	<u>42,000</u>	<u>51,000</u>
Therefore, fixed cost	<u>3,000</u>	<u>3,000</u>	<u>3,000</u> ⑥

**Question 9 – (continued)**

**(iv) Production overheads at the required flexible budgeted level of 96% - (19,200 units)**

	€
Variable cost (19,200 units x €6)	115,200
Fixed cost	<u>8,000</u>
Total cost	<u>123,200</u> *

**Other overhead costs at the required flexible budgeted level of 96% - (19,200 units).**

	€
Variable cost (19,200 units x €3)	57,600
Fixed cost	<u>3,000</u>
Total cost	<u>60,600</u> *

**Construction of a flexible budget for a 96% activity level.**

		<b>Flexible Budget</b>
		<b>96%</b>
Activity level		<b>19,200</b>
Units		€
Direct materials (€13 x 19,200)		249,600 ③
Direct wages (€9 x 19,200)		172,800 ③
Production overheads (€6 x 19,200) + 8,000		*123,200 ⑥
Administration overheads (fixed)		29,000 ②
Other overhead costs (€3 x 19,200) + 3,000		<u>*60,600</u> ⑥
Total cost (78% of sales)		635,200

**(v) Flexible Budget In Marginal Costing Format**

	€	€
Sales		814,359 ①
Less Variable costs		
Direct materials	249,600 ①	
Direct wages	172,800 ①	
Variable productions costs	115,200 ①	
Other overhead costs	<u>57,600</u> ①	<u>595,200</u>
<b>Contribution</b> ①		219,159
Less Fixed costs		
Production costs	8,000 ①	
Selling and distribution costs	3,000 ①	
Administration costs	<u>29,000</u> ①	<u>40,000</u>
<b>Profit</b>		<u>179,159</u> ③

**(vi) Principal Budget Factor - Often referred to as the limiting budget factor or the key budget factor. ⑦**

This is the factor that limits output and therefore prevents continuous expansion. Usually the principal budget factor is sales demand. The principal budget factor could be some other limiting factor such as availability of materials

**Why prepare a flexible budget and what does it show?**

To compare budgeted costs and actual costs at the same level of activity ⑥

To compare like with like

To help in controlling costs or to plan product levels

They show whether actual costs exceeded or were less than budgeted costs.(variances) ③