Question 9

80

(a)

(i)

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

(ii) Production overheads

		Units	Total Cost	
			€	
High		17,000	122,000	
Low		10,000	73,000	
Difference		7,000	49,000	

The variable cost of 7,000 units is 49,000
Therefore the variable cost per unit is **€7** (6)

Total production overhead cost	73,000	108,000	122.000	
Less variable costs	70,000	105,000	119,000	
Therefore, fixed cost	3,000	3,000	3,000	(6)

(iii) Other overhead costs

		Units	Total Cost	
			€	
High		17,000	60,000	
Low		10,000	39,000	
Difference		7,000	21,000	

The variable cost of 7,000 units is 21,000
Therefore the variable cost per unit is **€3** (6)

Total other overhead costs	39,000	54,000	60,000	
Less variable costs	30,000	45,000	51,000	
Therefore, fixed cost	9,000	9,000	9,000	(6)

(iv) Production overheads at the required flexible budgeted level of 95% - (19,000 units)

		€
Variable cost	(19,000 x 7)	133,000
Fixed cost		3,000
Total cost		136,000

Other overhead costs at the required flexible budgeted level of 95% - (19,000 units)

		€
Variable cost	(19,000 x 3)	57,000
Fixed cost		9,000
Total cost		66,000

Question 9– continued

Construction of a flexible budget for a 95% activity level

		Flexible Budget	
Activity level		**95%**	
Units		**19,000**	
		€	
Direct materials	(19,000 x 14)	266,000	(3)
Direct wages	(19,000 x 11)	209,000	(3)
Production overheads		136,000	(6)
Other overheads		66,000	(6)
Administration overheads (fixed)		28,000	(4)
Total cost (76% of sales)		705,000	

(v) Flexible Budget in Marginal costing format

		€	€	
Sales			927,632	(1)
Less Variable costs				
Direct materials		266,000 (1)		
Direct wages		209,000 (1)		
Variable production overhead		133,000 (1)		
Other overhead costs		57,000 (1)	665,000	
Contribution	(1)		262,632	
Less Fixed cost				
Production overheads		3,000 (1)		
Other overheads		9,000 (1)		
Administration		28,000 (1)	40,000	
Profit			222,632	(3)

(b) An adverse variance is where actual costs exceed budgeted costs (3)
An adverse variance in direct material costs may arise if the purchase price of materials is higher than expected or if the quantities of material used are higher than expected. (3)

(c) **Controllable Costs:** Are costs that can be controlled by the manager of a cost centre. She/he will make the decision about the amount of the cost or if the cost should be incurred and can be held responsible for variances in these costs. E.g.- all variable costs are controllable (3)

Uncontrollable Costs: Are costs over which the manager of a cost centre has no control and therefore cannot be held responsible for variances in these costs. E.g.- rates to the local authority are uncontrollable (3)