

SECTION 3 (80 Marks)Answer **ONE** question**8. Flexible Budgets and Stock Valuation****(a) Flexible Budgets**

Royston Ltd manufactures a component for the computer industry. The following flexible budgets have been prepared for 50%, 75% and 95% of the plant's capacity:

Output levels	50%	75%	95%
Units	20,000	30,000	38,000
Costs	€	€	€
Direct materials	90,000	135,000	171,000
Direct wages	300,000	450,000	570,000
Production overheads	110,000	155,000	191,000
Other overhead costs	171,000	249,000	311,400
Administration overheads	<u>80,600</u>	<u>80,600</u>	<u>80,600</u>
	<u>751,600</u>	<u>1,069,600</u>	<u>1,324,000</u>

Profit is budgeted to be 20% of sales. All units produced are sold.

Required:

- Separate production overheads into fixed and variable elements.
- Separate other overhead costs into fixed and variable elements.
- Prepare a flexible budget for 85% activity level using marginal costing principles, and show the contribution.
- Based on your calculations in part (iii) calculate the breakeven point and the margin of safety at 85% activity level for Royston.
- Explain with an example the term 'controllable cost'.

(b) Stock Valuation

Touhy Ltd is a retail store that buys and sells one product. The following information relates to the purchases and sales of the firm for the year 2023:

Period	Purchases on Credit	Credit Sales	Cash Sales
01/01/2023 - 31/03/2023	6,500 @ €9 each	1,900 @ €12 each	200 @ €11 each
01/04/2023 - 30/06/2023	3,700 @ €9.50 each	1,700 @ €13 each	1,900 @ €12 each
01/07/2023 - 30/09/2023	2,600 @ €9.75 each	2,900 @ €14 each	2,800 @ €13 each
01/10/2023 - 31/12/2023	1,200 @ €10 each	700 @ €15 each	1,600 @ €14 each

On 01/01/2023 there was an opening stock of 5,000 units @ €8 each.

Required:

- Calculate the value of closing stock at 31/12/2023 using the FIFO method. (Show your workings).
- Prepare a trading account for the year ended 31/12/2023.
- Explain the FIFO method of stock valuation and name one other method of valuing stock.

(80 marks)