Question 8

48

(a) Flexible Budgets

(i) **Production Overheads**

	Units	€
High	38,000	191,000
Low	20,000	110,000
Diff	18,000	81,000

Variable Cost:

81,000 / 18,000 = €4.50 per unit **[6]**

Fixed Cost:

@ 38,000 units 191,000 – (38,000 x 4.50) = €20,000**[5]**
@20,000 units 110,000 – (20,000 x 4.50) = €20,000

(ii) **Other Overheads**

	Units	€
High	38,000	311,400
Low	20,000	171,000
Diff	18,000	140,400

Variable Cost:

140,400 / 18,000 = €7.80 per unit **[6]**

Fixed Cost:

@ 38,000 units 311,400 – (38,000 x 7.80) = €15,000 **[5]**
@20,000 units 171,000 – (20,000 x 7.80) = €15,000

(iii) **Flexible Budget at 85% Activity Level**

	€	€	
Sales (34,000 units)		1,496,000 **[1]**	€44 p.u.
Less Variable Costs:			
Materials (34,000 x 4.50)	153,000 **[1]**		
Labour (34,000 x 15)	510,000 **[1]**		
Production Overheads (34,000 x 4.50)	153,000 **[1]**		
Other Overheads (34,000 x 7.80)	265,200 **[1]**	(1,081,200)	€31.80p.u.
Contribution		414,800 **[3]**	€12.20p.u.
Less Fixed Costs			
Production Overheads	20,000 **[1]**		
Other Overheads	15,000 **[1]**		
Administration	80,600 **[1]**	(115,600)	
Profit		299,200**[2]**	

Workings:

1,081,200 + 115,600 = 1,196,800= 80%

1,196,800/ 80 x 100 = 1,496,000

(iv) Break Even Point = $\frac{115{,}600}{12.20}$ = 9,476 units **[5]**

Margin of safety = 34,000 - 9,476 = 24,524 units **[4]**

(v) Controllable costs are costs that can be overseen by the manager of the cost centre. The manager 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. Commission to sales personnel can be controlled by the sales manager. **[4]**

(b) **(i) Stock Valuation**

32

Purchases

Units	Price	Cost
	€	€
6,500	9	58,500
3,700	9.50	35,150
2,600	9.75	25,350
1,200	10	12,000
14,000		131,000

Sales

Units	Price	Revenue	Units	Price	Revenue	Total Revenue
Credit sales			Cash Sales			
	€	€		€	€	€
1,900	12	22,800	200	11	2,200	25,000
1,700	13	22,100	1,900	12	22,800	44,900
2,900	14	40,600	2,800	13	36,400	77,000
700	15	10,500	1,600	14	22,400	32,900
7,200		96,000	6,500		83,800	179,800

Closing stock in units	
Opening Stock	5,000 **[1]**
Purchases	14,000 **[1]**
Credit Sales	(7,200) **[1]**
Cash Sales	(6,500) **[1]**
Closing Stock	5,300**[1]**

Value of Closing Stock:	**€**
1,200 @ 10	12,000 **[2]**
2,600 @ 9.75	25,350 **[2]**
1,500 @ 9.50	14,250 **[2]**
5,300	**51,600 [2]**

(b) (ii) **Trading Account for Touhy Ltd for year ended 31/12/2023**

	€	€
Sales		179,800 **[3]**
Less Cost of Sales		
Opening Stock	40,000 **[2]**	
Purchases	131,000 **[3]**	
Closing Stock	(51,600) **[2]**	(119,400)
Gross Profit		60,400**[3]**

(iii)

FIFO(First in First Out) is a common stock valuation method used in cost accounting. Under the FIFO method, the earliest purchased or produced goods are sold/used first. By selling your oldest stock first, its price or value is represented as the most accurate estimate of each stock item.
Alternative method –

- LIFO
- Average Cost
- Weighted Average
- Standard Cost **[6]**