

h99.9. Flexible Budgeting

Sullivan Plc manufactures a component for the motor industry. The following flexible budgets have already been prepared for 50%, 60% and 75% of the plant's capacity.

Output Levels	50%	60%	75%
Units	5,000	6,000	7,500
	€	€	€
Direct materials	55,000	66,000	82,500
Direct Wages	35,000	42,000	52,500
Production overheads	39,000	44,000	51,500
Other overheads	12,000	14,000	17,000
Administration expenses	20,000	20,000	20,000
	161,000	186,000	223,500

Profit is budgeted to be 25% of sales.

You are required to:

- a) Classify the above costs into fixed, variable and mixed costs.
- b) Separate production overheads into fixed and variable elements.
- c) Separate other overhead costs into fixed and variable elements.
- d) Prepare a flexible budget for 90% activity level.
- e) Restate the budget, using marginal costing principles and show the contribution.
- f) Indicate why a flexible budget is prepared and what it shows.

(80 marks)