

**Question 9 Flexible Budgeting**

80

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

	Units	Total cost
	£	£
High	7,500	51,500
Low	<u>5,000</u>	<u>39,000</u>
Difference	<u>2,500</u>	<u>12,500</u>

The variable cost of 2,500 units is £12,500, therefore the variable cost per unit is £5. ⑥

	£
Total production overhead cost at 60%	44,000
Variable cost (6,000 units x £5)	<u>30,000</u>
Therefore fixed cost	<u>14,000</u> ⑥

	Units	Total cost
	£	£
High	7,500	17,000
Low	<u>5,000</u>	<u>12,000</u>
Difference	<u>2,500</u>	<u>5,000</u>

The variable cost of 2,500 units is £5,000, therefore the variable cost per unit is £2 ⑥

	£
Total other overhead costs at 60%	14,000
Variable cost (6,000 units x £2)	<u>12,000</u>
Therefore, fixed cost	<u>2,000</u> ⑥

**Question 9 - continued**

(d) **Production overheads at the required flexible budgeted level of 90% - (9,000 units)**

	£
Variable cost (9,000 units x £5)	45,000
Fixed cost	<u>14,000</u>
Total cost	<u>59,000</u> *

**Other overhead costs at the required flexible budgeted level of 90% - (9,000 units).**

	£
Variable cost (9,000 units x £2)	18,000
Fixed cost	<u>2,000</u>
Total cost	<u>20,000</u> *

**Construction of a flexible budget for a 90% activity level.**

	<b>Flexible Budget</b>
Activity level	<b>90%</b>
Units	<b>9,000</b>
	£
Direct materials (£11 per unit)	99,000 ③
Direct wages (£7 per unit)	63,000 ③
Production overheads	59,000 ⑥
Administration overheads (fixed)	20,000 ②
Other overhead costs	<u>20,000</u> ⑥
Total cost (75% of sales)	<u>261,000</u>

(e)

**Flexible Budget In Marginal Costing Format**

	£	£
Sales		348,000 ①
<i>Less Variable costs</i>		
Direct materials	99,000 ②	
Direct wages	63,000 ②	
Variable productions costs	45,000 ①	
Other overhead costs	<u>18,000</u> ①	<u>225,000</u>
<b>Contribution</b>	③	123,000
<i>Less Fixed costs</i>		
Production costs	14,000 ①	
Selling and distribution costs	2,000 ①	
Administration costs	<u>20,000</u> ②	<u>36,000</u>
<b>Profit</b>		<u>87,000</u> ②

(f) To compare budgeted costs and actual costs at the same level of activity ④

To plan product levels and help in controlling costs ③

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