9. Flexible Budgeting

Mc Ginley manufactures a component for the motor industry. The following flexible budgets have already been prepared for 50%, 75% and 85% of the plant's capacity:

Output Levels	**50%**	**75%**	**85%**
Units	10,000	15,000	17,000
Costs	**€**	**€**	**€**
Direct materials	140,000	210,000	238,000
Direct wages	110,000	165,000	187,000
Production overheads	73,000	108,000	122,000
Other overhead costs	39,000	54,000	60,000
Administration expenses	28,000	28,000	28,000
	390,000	565,000	635,000

Profit is budgeted to be 24% of sales.

You are required to:

(a) (i) Classify the above costs into fixed, variable and mixed costs.

(ii) Separate production overheads into fixed and variable elements.

(iii) Separate other overhead costs into fixed and variable elements.

(iv) Prepare a flexible budget for 95% activity level.

(v) Restate the budget, using marginal costing principles, and show the contribution.

(b) What is an adverse variance? State why adverse variances may arise in Direct material costs.

(c) Explain, with examples, 'controllable' and 'uncontrollable' costs.

(80 marks)