

Question 9

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(a)

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

(ii) Production overheads	Units	Total Cost
	€	
High	17,000	122,000
Low	<u>10,000</u>	<u>73,000</u>
Difference	7,000	49,000

The variable cost of 7,000 units is 49,000

Therefore the variable cost per unit is

€7 (6)

Total production overhead cost	73,000	108,000	122,000
Less variable costs	<u>70,000</u>	<u>105,000</u>	<u>119,000</u>
Therefore, fixed cost	3,000	3,000	3,000

(6)

(iii) Other overhead costs	Units	Total Cost
	€	
High	17,000	60,000
Low	<u>10,000</u>	<u>39,000</u>
Difference	7,000	21,000

The variable cost of 7,000 units is 21,000

Therefore the variable cost per unit is

€3 (6)

Total other overhead costs	39,000	54,000	60,000
Less variable costs	<u>30,000</u>	<u>45,000</u>	<u>51,000</u>
Therefore, fixed cost	9,000	9,000	9,000

(6)

(iv) Production overheads at the required flexible budgeted level of 95% - (19,000 units)

		€
Variable cost	(19,000 x 7)	133,000
Fixed cost		<u>3,000</u>
Total cost		<u>136,000</u>

Other overhead costs at the required flexible budgeted level of 95% - (19,000 units)

		€
Variable cost	(19,000 x 3)	57,000
Fixed cost		<u>9,000</u>
Total cost		<u>66,000</u>

Question 9– continued

Construction of a flexible budget for a 95% activity level

Activity level		Flexible Budget
Units		95%
		19,000
		€
Direct materials	(19,000 x 14)	266,000 (3)
Direct wages	(19,000 x 11)	209,000 (3)
Production overheads		136,000 (6)
Other overheads		66,000 (6)
Administration overheads (fixed)		<u>28,000</u> (4)
Total cost (76% of sales)		<u>705,000</u>

(v) Flexible Budget in Marginal costing format

	€	€
Sales		927,632 (1)
Less Variable costs		
Direct materials	266,000 (1)	
Direct wages	209,000 (1)	
Variable production overhead	133,000 (1)	
Other overhead costs	<u>57,000</u> (1)	665,000
Contribution	(1)	<u>262,632</u>
Less Fixed cost		
Production overheads	3,000 (1)	
Other overheads	9,000 (1)	
Administration	<u>28,000</u> (1)	<u>40,000</u>
Profit		<u>222,632</u> (3)

(b) An adverse variance is where actual costs exceed budgeted costs (3)
 An adverse variance in direct material costs may arise if the purchase price of materials is higher than expected or if the quantities of material used are higher than expected. (3)

(c) **Controllable Costs:** Are costs that can be controlled by the manager of a cost centre. She/he 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 (3)

Uncontrollable Costs: Are costs over which the manager of a cost centre has no control and therefore cannot be held responsible for variances in these costs. E.g.- rates to the local authority are uncontrollable (3)