9. Flexible Budgeting

Conlon Ltd manufactures a component for the computer industry. The following flexible budgets have already been prepared for 60%, 75% and 90% of the plant's capacity:

Output levels	**60%**	**75%**	**90%**
Units	18,000	22,500	27,000
Costs	**€**	**€**	**€**
Direct materials	32,400	40,500	48,600
Direct wages	61,200	76,500	91,800
Production overheads	55,200	66,000	76,800
Other overhead costs	31,900	35,500	39,100
Administration expenses	32,000	32,000	32,000
	212,700	250,500	288,300

Profit is budgeted to be 20% 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) Explain, giving **three** examples, what is meant by the Principal Budget Factor.

(c) Why would a company prepare a flexible budget, and what does it show?

(80 marks)