



Accounting Leaving Certificate Higher Level

Past Exam Questions on:

Flexible Budget

Q8 2012

8. Overhead Apportionment and Flexible Budgeting

- (a) Heron Ltd has two Production Departments 1 and 2 and two ancillary Service Departments X and Y. The following are the expected overhead costs for the next 6 months:

Overhead	Total €
Depreciation of equipment	20,000
Depreciation of factory buildings	24,000
Factory heating	8,000
Factory cleaning	4,000
Factory canteen	5,400

The following information relates to the Production and Service Departments of the Factory:

	Production		Service	
	Dept. 1	Dept. 2	Dept. X	Dept. Y
Volume in cubic metres	1,000	2,000	600	400
Floor area in square metres	800	600	400	200
Number of employees	140	100	70	50
Book value of equipment	€10,000	€15,000	€9,000	€6,000
Machine hours	4,000	1,000		

You are required to:

- Calculate the overhead to be absorbed by each Department stating clearly the basis of apportionment used.
 - Transfer the Service Department costs to Production Departments 1 and 2 on the basis of machine hours.
 - Calculate a machine hour overhead absorption rate for Departments 1 and 2.
 - Explain why it is necessary to transfer Service Department costs to Production Departments 1 and 2.
- (b) Mixed costs can be separated into their fixed and variable elements by using records of costs from previous periods. Edant plc manufactures a single component for the motor industry. The following production costs and output levels have been recorded during March, April and May 2011:

Output Levels	60%	80%	90%
Units	12,000	16,000	18,000
Costs	€	€	€
Direct materials	156,000	208,000	234,000
Direct Labour	108,000	144,000	162,000
Production Overheads	79,200	102,000	113,400
Other overhead costs	64,800	85,200	95,400
Administration expenses	30,000	30,000	30,000
	<u>438,000</u>	<u>569,200</u>	<u>634,800</u>

Profit is budgeted to be 20% of sales. **Other overhead costs** can be separated into their fixed and variable elements as follows: **Variable cost per unit is €5.10 and Fixed Cost €3,600.**

You are required to:

- Separate production overheads into fixed and variable elements.
- Prepare a Flexible Budget for 95% Activity Level using Marginal Costing principles and show the contribution.
- Explain, with examples, 'controllable' and 'uncontrollable' costs.

(80 marks)

Q9 - 2006

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
	<u>390,000</u>	<u>565,000</u>	<u>635,000</u>

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)

Q9 - 2003

9. Flexible Budgeting

O'Reilly manufactures a component for the electronic industry. The following flexible budgets have already been prepared for 55%, 70% and 85% of the plant's capacity:

Output levels	55%	70%	85%
Units	11,000	14,000	17,000
Costs	€	€	€
Direct materials	143,000	182,000	221,000
Direct wages	99,000	126,000	153,000
Production overheads	74,000	92,000	110,000
Other overhead costs	36,000	45,000	54,000
Administration expenses	29,000	29,000	29,000
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	381,000	474,000	567,000

Profit is budgeted to be 22% 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 96% activity level.
 - (v) Restate the budget, using marginal costing principles, and show the contribution.
- (b) Explain Principal Budget Factor. Why prepare a flexible budget and what does it show?

(80 marks)