Budgeting – Flexible and Mixed |

Question Layout

Budgeting - Flexible

- Materials = Variable
- Labour = Variable
- Production overheads = Mixed
- Other overheads = Mixed
- Administration = Fixed

Separating the overheads into variable and fixed elements:

Variable:

	Units	€
High:	(most units here)	(highest price here)
-Low:	-(least units here)	-(lowest price here)
	Ans. 1	Ans. 2

- Ans. 2/Ans. 1 = Variable.

Fixed:

	High	Low
Total	(highest price here)	(lowest price here)
-Variable	(largest units x €variable)	(smallest units x €variable)
=Fixed	Ans. 1	Ans. 2

- The fixed overheads is the final answer. Here Ans.1 and Ans. 2 should be the same.

You must do this twice, once for Production overheads and once for Other overheads

- You could be asked to do a marginal costing statement or an absorption costing statement, or even both.
- But before you do either of these you must first do a Flexible budget.

Layout for a Flexible budget:

Flexible budget at x% - (…) units	
Materials	000
Labour	000
Production overheads:	
Variable	000
Fixed	000
Other overheads:	
Variable	000
Fixed	000
+ Administration	000
= Total cost	000

Layout for a Marginal costing Statement:
Here you must convert “total cost”, from the flexible budget, to sales using the percentage of sales/cost of sales given in the question.

Marginal costing statement at x% - (…) units

Sales		000
Less variable costs:		
Materials	000	
Labour	000	
Production O/H (variable only)	000	
Other O/H (variable only)	000	(000)
Contribution		000
Less fixed costs:		
Production O/H (fixed only)	000	
Other O/H (fixed only)	000	
Administration	000	(000)
= Total costs		000

Layout for an absorption costing statement:

Absorption costing statement at x% - (…) units

Sales		000
Less:		
Direct materials	000	
Direct labour	000	
Production overheads	000	
Other overheads	000	000
= Gross profit		000
Less administration costs		(000)
= Net profit		000

Mixed budgets:

- Generally, a mixed budget will ask you for 4 months. In this case we include 5 months (January-May) up as far as “material required for production”, (see ** in Raw materials purchases budget), since we need to use the figures for 1 month ahead. After this point, we continue normally with only the 4 months in question.

	Jan.	Feb.	Mar.	Apr.	May.	Total.
Production budget:						
Sales						
+ Closing stock						
-Opening stock						
= Production						

Raw materials purchases budget:

Production	
x Materials per unit	
**= Materials required for production	
+ Closing stock	
-Opening stock	
= Budgeted: Purchase of materials	
x price/kg	
= purchases	

Cash budget of (Name) from January to June

	Jan.	Feb.	Mar.	Apr.	Total.
Income:					
Sales: Cash					
Credit: 1m					
2m					
Total income:					
Less Expenditure:					
Purchases: 1m					
Wages					
Variable overheads					
Fixed overheads					
Equipment					
Loan interest					
Loan repayments					
…					
Total expenditure:					
Net cash					
Loan					
Opening cash					
Closing cash					

Budgeted P&L a/c of (Name) for 4 months ending x/x/x

Sales		000
Less cost of sales:		
Opening stock	000	
Purchases	000	
-C. Stock: Finished goods	000	
Raw materials	(000)	(000)
= Gross profit		000
Less Expenses:		
Wages	000	
Variable O/H	000	
Fixed O/H	000	
Depreciation	000	
Discount given	000	
…	000	(000)
= Operating profit		000
-Interest		(000)
= Net profit		000