

INTERMEDIATE EXAMINATION – GROUP - II
(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS
December - 2008

PAPER P- 8 : COST & MANAGEMENT ACCOUNTING

Time Allowed : 3 Hours

Full Marks : 100

Attempt Question No.1 which is compulsory and any five from the rest

Question : 1

- 1.(a) Match the following expressions in column I with the most relevant topic in column II 1×5=5

Column I	Column II
Balanced Score Card	Inventory Control
Under Absorbed Overhead	Marginal Costing
Contribution	Method of Wage Payment
Piece Rate	Supplementary Rates
Perpetual Inventory System	Performance Analysis

- (b) Fill in the blanks; 1×5=5
- (i) The term used to charge overheads to cost units is called_____.
 - (ii) Sales minus Break-even sales is called_____.
 - (iii) Material usage variance is the sum of_____.
 - (iv) In absorption costing_____cost is added to inventory.
 - (v) In Television industry the most appropriate method of costing is_____ costing.
- (c) State whether the following statements are True (T) or False (F): 1×5
- (i) If an expense can be identified with a specific cost unit, it is treated as direct expense.
 - (ii) Time and motion study which is a function of the engineering department is useless for determination of wages.

- (iii) Fixed costs vary with volume rather than time.
- (iv) future costs are not relevant while making managerial decision.
- (v) In break-even analysis it is assumed that variable costs fluctuate inversely with time. 1x5
- (d) Identify the correct answer from the given alternative of the following questions:
- (i) Which of the following concept is known as cost behavior-oriented approach to product costing?
- Standard costing
 - Marginal costing
 - Process costing
 - Absorption costing
- (ii) "Conversion cost" refers to
- Manufacturing costs incurred to produce units of output
 - All costs associated with manufacturing other than direct labour costs
 - The sum of direct material costs and all factory overhead costs
 - The sum of raw material costs and overhead costs
- (iii) Which of the following is the correct valuation base for finished goods stock for balance sheet purposes?
- Variable cost per unit
 - Marginal cost per unit
 - Production cost per unit
 - Total cost per unit
- (iv) Which of the following is true at break-even point?
- Total Sales revenue = Variable cost
 - Profit = Fixed cost
 - Sales revenue = Total cost – Variable cost
 - Contribution = Fixed cost
- (v) If the raw material prices are affected by inflation, which of the following methods of valuing stocks will give the lowest gross profit?
- LIFO
 - Replacement cost
 - FIFO
 - Simple average
- (e) Choose the correct answer from the brackets: 1 x 5 = 5
- (i) In a company there were 1200 employee on the rolls at the beginning of a year and 1180 at the end. During the year 120 persons left service and 96 replacements were made. The labour turnover according to flux method is _____ %. [5.04, 4.03, 9.08]
- (ii) The variable cost of a product increases by 10% and the management raise the unit selling price by equal amount. The fixed costs remain unchanged. Then BEP of the firm _____ [increase, decrease, unchanged]

- (iii) The factory where standard costing is followed, 4600 kg of materials at Rs.10.50/kg were actually consumed resulting in a price variance of Rs. 4800 (A) and usage variance of Rs. 4000 (F). The standard cost of actual production is Rs._____. [100000, 96000, 120000]
- (iv) If the capacity usage ratio of a production department is 90% and activity ratio is 99%, then the efficiency ratio of the department is _____. [120, 110, 90]
- (v) the output of three different products P,Q and R in a factory are 20000 kg, 15000 kg and 15000 kg respectively. If costs are in proportion 4:6:7, then the cost per equivalent unit is Rs._____. [10, 7, 5]

Answer to Question No. 1(a):

Matching:

- | | | |
|----------------------------|---|------------------------|
| Balance score card | → | Performance analysis. |
| Under Absorbed Overhead | → | Supplementary rates |
| Contribution | → | Marginal costing |
| Piece Rate | → | Method of wage payment |
| Perpetual Inventory system | → | Inventory control. |

Answer to Question No. 1(b):

Fill in the blanks:

- (i) → Allocation (ii) → Margin of safety (iii) → Mix variance and yield variance (iv) → Fixed cost (v) → Batch.

Answer to Question No. 1(c):

True(T)/False(F):

- (i) → True (ii) → False (iii) → False (iv) → False (v) → False.

Answer to Question No. 1(d):

- (i) → B. (ii) → A. (iii) → C. (iv) → D. (v) → A.

Answer to Question No. 1(e):

- (i) → 9.08, (ii) → Unchanged, (iii) → 100000, (iv) → 110, (v) → 5.

Question :

- 2.(a) What is idle time? Explain the causes for idle time. 5
- (b) A worker is allowed 60 hours to complete a job on a guaranteed wage of Rs. 10 per hour. He completes the job in 48 hours. For the saving in time, how much he will get under Hasley Premium Plan (@50% Bonus)? 5
- (c) A company makes components for television sets using two service departments and two production departments. The inter-departmental relationship and overhead costs are given below:

From:	Percentage of service provided to			
	Maintenance	Scheduling	Moulding	Assembly
Maintenance	—	10%	40%	50%
Scheduling	20%	—	50%	30%
Total overhead cost (Rs.)	750000	400000	378000	276000

You are required to show the amount of Scheduling Department costs and Maintenance Department costs to be allocated to the Production Department, using Simultaneous Equation Method. 5

Answer to Question No. 2(a):

Idle time may be defined as that time for which wages are paid but no production is obtained. It is the difference between hours paid and hours worked. This is reflected in the time card as the hours not booked in job or work order, and during which time the worker remains idle. It can be classified under normal and Abnormal idle time.

Causes for idle time.

The causes leading to idle time may be broadly classified into four categories as follows:

- (i) time lost between gate and place of work, break for tea, time for tool setting adjustment of machine etc.
- (ii) Normal idle time such as waits for jobs, tools, materials, instructions, power failures, breakdown of machines and tools etc.
- (iii) Abnormal idle time such as those arising due to breakdown for considerable period, non-availability of raw materials, slack supervision, strikes or lock-outs, fire, flood, storm etc.
- (iv) Concealed idle time such as manipulation of job booking, wastage of time due to under-employment and employment of skilled workers on unskilled jobs etc.

Answer to Question No. 2(b):

EARNING UNDER HALSEY PREMIUM PLAN (@50% Bonus):

EARNING = (Hrs worked x rate ph) + 50% of Time saved X rate

EARNING = 48 x 10/- + 50% of (60-48) x 10/- = Rs. 480/- + Rs.60/- = Rs. 540/-

Answer to Question No. 2(c):

(c) Let M be the Overheads of Maintenance Department

And S be the Overheads of Scheduling Department

$$M = 750000 + 0.2 S \text{ ————— (1)}$$

$$S = 400000 + 0.1 M \text{ ————— (2)}$$

By solving equation

$$M = \text{Rs. } 846939$$

$$S = \text{Rs. } 484694$$

Allocation of overheads

Departments:	Service		Productiona	
	Maintenance	Scheduling	Moulding	Assembly
Total overheads (Rs)	750000	400000	378000	276000
Maintenance (Rs)	846939	84694	338775	423470
Scheduling (Rs)	96939	484694	242347	145408
			959122	844878
			Rs. 18,04,000	

Question:

3.(a) The following was the expenditure on a contract for Rs. 1200000 commenced in January 2008:

	Rs.
Materials	240000
Wages	328000
Plant	40000
Overheads	17200

Cash received on account of the contract up to 31st December was Rs. 480000 being 80% of the work certified.

The value of materials in hand was Rs. 20000. The plant had undergone 20% depreciation.

Prepare contract account.

5

(b) A factory has two production processes. Normal loss in each process is 10% and scrapped units sell for Re. 0.50 each from process 1 and Rs. 3 each from process 2.

Relevant information for costing purposes relating to period 5 are as follows:

	<u>Process 1</u>	<u>Process 2</u>
Direct materials added:		
Units	2000	1250
Cost	Rs. 8100	Rs. 1900
Direct labour	Rs. 4000	Rs. 10000
Production overhead	150% of direct labour cost	120% of direct labour cost
Output of Process 2/finished goods	1750 units	2800 units
Actual production overhead	Rs. 17800	

Workout cost per unit of output and losses.

10

Answer to Question No. 3(a):

Contract Account

	Rs.		Rs.
To Materials	240000	By Work Certified	600000 *
To Wages	328000	By Materials in hand	20000
To Plant	40000	By Plant in hand	32000
To Overheads	17200		
To Notional Profit	26800		
	652000		652000
To Profit & Loss	14293	To Notional Profit	26800
[26800 x 2 x 80/3 x 100]			
To Balance c/d	12507		
	26800		26800

* 80% = Rs. 480000

100% = Rs. 480000 / 0.8 = Rs. 6,00,000

Answer to Question No. 3(b):**CALCULATION OF OUTPUT AND LOSSES:**

	Process 1	Process 2
	Units	Units
Output	1750	2800
Normal loss (10% of input)	200	300
Abnormal loss	50	-
Abnormal gain	-	(100)
	2000	3000*

*1750 units from Process 1 + 1250 units input to process.

Computation of Cost per unit of output and losses

	Process 1		Process 2
	Rs.		Rs.
Cost of input			
- Material	8100		1900
- from process 1	-	(1750xRs. 10)	17500
- labour	4000		10000
- overhead (150% of Rs.4000)	6000	(120% of Rs. 10000)	12000
	<u>18100</u>		<u>41400</u>
Less scrap value of normal loss			
(200x Rs. 0.50)	(100)	(300x Rs. 3)	(900)
	<u>18000</u>		<u>40500</u>
Expected output			
90% of 2000	1800		
90% of 3000			2700
Cost per unit			
Rs. 18000/1800 =	Rs. 10		
Rs. 40500/2700n =			Rs. 15

COMPUTATION OF TOTAL COST OF OUTPUT AND LOSSES:

	Process 1		Process 2	
	Rs.		Rs.	
Output	(1750xRs. 10)	17500	(2800xRs. 15)	42000
Normal loss	(200 x Rs. 0.50)*	100	(300 x Rs. 3)*	900
Abnormal loss	(50xRs. 10)	500		
	<u>18100</u>		<u>42900</u>	
Abnormal gain	-		(100xRs. 15)	(1500)
	<u>18100</u>		<u>41400</u>	

* Normal loss is valued at scrap value only.

Question:

4.(a) "Costs may be classified in a variety of ways according to their nature and the information needs of the management".—Explain. 5

(b) Ahotel has a capacity of 100 single rooms and 20 double rooms. The average occupancy of both single and double rooms is expected to be 80% throughout the year of 365 days. The rent for the double rooms has been fixed at 125% of the rent of the single room. The costs are as under:

Variable costs: Single room Rs. 220 each per day; Double room Rs. 350 each per day.

Fixed costs: Rs. 49,64,000

Calculate the rent chargeable for single and double rooms per day in such a way that the earns a margin of safety of 20% on hire of room.

Answer to Question No. 4(a):

Classification of costs can be made according to the following basis:-

- (i) Classification according to elements viz., material, labour and expenses
- (ii) Classification according to nature:-
 - Direct and Indirect Material, Direct and Indirect Labour
 - Direct and Indirect Expenses
- (iii) Classification according to behaviour
 - Fixed Cost, Variable Cost, Semi-variable cost
- (iv) Classification according to function
 - Production cost, Administrative Cost, Selling and Distribution cost, Research and Development cost
- (v) Classification according to time
 - Historical costs, Pre-determined cost
- (iv) Classification of costs for decision making
 - Marginal cost, Differential cost, Opportunity cost, Relevant cost, Replacement cost, Abnormal costs, Controllable cost, Shut Down cost, Capacity cost, Urgent cost

Answer to Question No. 4(b):

OCCUPANCY :

Single room $100 \times 365 \times 80/100 = 29200$

Double room $20 \times 365 \times 80/100 = 5840$

STATEMENT SHOWING TOTAL COST FOR THE YEAR:

Variable cost $29200 \times 220 + 5840 \times 350 = \text{Rs. } 8468000$

Fixed cost $= \text{Rs. } 4964000$

Rs. 13432000

Since Margin of safety 20%, BE Point will be 80% = Rs. 13432000

Total Revenue at 100% = 100/80 of Rs. 13432000 = Rs. 16790000

Effective room 29200X1 +5840 x 1.25 = 36500

Single Room rate = Rs. 16790000/36500 = Rs. 460

Double Room rate = Rs. 460X 1.25 = Rs. 575

Rent chargeable for single room per day : Rs. 460

Rent chargeable for double room per day : Rs. 575

Question:

5.(a) State the distinguishing features of standard cost. 5

(b) The following information was obtained from the records of a manufacturing unit using standard costing system:

Particulars	Standard	Actual
Production	4000 units	3800 units
Working days	20	21
Fixed overheads	Rs. 40,000	Rs. 39,000
Variable overheads	Rs. 12,000	Rs. 12,000

Calculate:

- Variable overhead variance;
- Fixed overhead expenditure variance;
- Fixed overhead volume variance;
- Fixed overhead efficiency variance;
- Fixed overhead calendar variance;

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Answer to Question No. 5(a):

Distinguishing features of standard cost are stated below:

- Predetermined cost on scientific basis.
- Built up from the assessment of the value of cost elements.
- Emphasizes what should be the cost
- Used for analysis of variance
- Serves as effective tools for cost control.
- Promotes possible cost reduction.
- Forms basis for establishing bids and contracts and for setting selling prices.
- Facilities 'Management by exception' .
- Used as an aid to budgeting
- Provides incentive and motivation to work with greater efforts and vigilance for achieving standard.

Answer to Question No. 5(b):

WORKING NOTES:

Standard Variable overhead Rate (per unit): $12000/4000 = \text{Rs. } 3.$

Standard production per day: $4000/20 = 200$ units.

Standard Fixed overhead per day = $40000/20 = \text{Rs. } 2000/-$

Standard Fixed overhead per unit = $40000/4000 = \text{Rs. } 10.$

CALCULATION OF VARIANCES:

- (a) Variable overhead variance:
 (Actual variable overhead for the period-standard variable overhead for actual production)
 = $\text{Rs. } 12000 - (3 \times 3800) = (12000 - 11400) = \text{Rs. } 600$ (Adverse).
- (b) Fixed overhead Expenditure variance:
 (Actual fixed overhead for the period-Budgeted/standard fixed overhead)
 = $\text{Rs. } 39000 - \text{Rs. } 40000 = \text{Rs. } 1000$ (Favour)
- (c) Fixed overhead volume variance:
 Standard fixed overhead rate per unit (Actual production-Budget/Standard production)
 = $\text{Rs. } 10 \times (3800 - 4000) = \text{Rs. } 2000$ (Adverse)
- (d) Fixed overhead Efficiency Variance:
 Standard fixed overhead rate per unit x (Actual production-standard production for Actual days)
 = $\text{Rs. } 10 \times (3800 - 21 \times 200) = 10 \times (3800 - 4200) = \text{Rs. } 4000$ (Adverse).
- (e) fixed overhead calendar variance:
 Standard fixed overhead per day x (Actual - standard working days) = $\text{Rs. } 2000 \times (21 - 20) = \text{Rs. } 2000$ (Favour)
- Verification:
 Fixed overhead volume variance = (Efficiency variance + capacity variance + calendar variance)
 = $\text{Rs. } 4000$ (A) + 0 + $\text{Rs. } 2000$ (FAV) = $\text{Rs. } 2000$ (Adv)

Question:

6.(a) The following are the estimate sales of a company for eight months ending 30.11.2007

Month	Estimated Sales (Units)
April 2007	12000
May 2007	13000
June 2007	9000
July 2007	8000
August 2007	10000
September 2007	12000
October 2007	14000
November 2007	12000

As a matter of policy, the company maintains the closing balance of finished goods and raw materials as follows:

Stock item	closing balance of a month
Finished goods	50% of the estimated sales for the next month
Raw materials	Estimated consumption for the next month

Every unit of production requires 2 kg of raw materials costing Rs. 5 per kg.

Prepare Production Budget (in units) and Raw Materials Purchase Budget (in units and cost) of the company for the half year ending 30 September 2007.

(b) Explain the methods of Transfer Pricing.

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Answer to Question No. 6(a):

A COMPANY

PRODUCTION BUDGET FOR THE HALF YEAR ENDING 30-09-2007

	April Units	May Units	June Units	July Units	Aug. Units	Sep. Units
Estimated Sales	12000	13000	9000	8000	10000	12000
Add: Closing stock	6500	4500	4000	5000	6000	7000
	<u>18500</u>	<u>17500</u>	<u>13000</u>	<u>13000</u>	<u>16000</u>	<u>19000</u>
Less: opening stock	6000	6500	4500	4000	5000	6000
Estimated production	12500	11000	8500	9000	11000	13000

RAW MATERIAL PURCHASE BUDGET FOR THE HALF YEAR ENDING 30-09-2007

	April kg	May kg	June Kg	July kg	Aug. kg	Sep. Kg
Consumed @ 2 kg p.u. Of production	25000	22000	17000	18000	22000	26000
Add: Closing stock	22000	17000	18000	22000	26000	26000
	<u>47000</u>	<u>39000</u>	<u>35000</u>	<u>40000</u>	<u>48000</u>	<u>52000</u>
Less: Opening stock	25000	22000	17000	18000	22000	26000
Purchase	<u>22000</u>	<u>17000</u>	<u>18000</u>	<u>22000</u>	<u>26000</u>	<u>26000</u>
Cost of purchase @ Rs. 5 per kg Rs.	110000	85000	90000	110000	130000	130000

Answer to Question No. 6(b):

Methods of Transfer Pricing:-

- (i) cost based pricing where cost may be either actual cost of production, full cost, standard cost, marginal cost
- (ii) Market based pricing where transfer price will be determined according to price Prevailing in the market.
- (iii) Negotiated pricing where price may be fixed through negotiation between the two divisions.
- (iv) Opportunity cost pricing

The fixation of transfer price is a very delicate decision and there is likely to be clash o interest. As such, Goal Congruence should be given highest importance.

Question:

7.(a) Distinguish between Marginal Costing and Absorption Costing. 5

(b) A company produces 30000 units of product A and 20000 units of product B per annum. The sales value and costs of the two products are as follows:

Sales value:	Rs. 760000	Factory Overheads:	Rs. 190000
Direct Material:	Rs. 140000	Administrative and selling overheads:	Rs. 120000
Direct Labour:	Rs. 190000		

50% of the factory overhead are variable and 50% of the administrative and selling overheads are fixed. The selling price of A is Rs. 12 per unit and Rs. 20 per unit for B.

The direct material and labour ratio for product A is 2:3 and for B 4:5. For both the products, the selling price is 400% of direct labour. The factory overheads are charged in the ratio of direct labour and administrative and selling overheads are recovered at a flat rate of Rs.2 per unit for A and Rs. 3 per unit for B.

Due to fall in demand of the above products, the company has a plan to diversify and make product C using 40% capacity. It has been estimated that for C direct material and direct labour will be Rs. 2.50 and Rs. 3 per unit respectively. Other variable costs will be the same as applicable to the product A. The selling price of product C is Rs.14 per unit and production will be 30000 units.

Assuming 60% capacity is used for manufacture of A and B, calculate—

- (i) Present cost and profit;
- (ii) Cost and profit after diversification;
- (iii) Give your recommendations as to whether to diversify or not.

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Answer to Question No. 7(a):

The difference between marginal costing and absorption costing is summarized below:

<i>Marginal Costing</i>	<i>Absorption Costing</i>
1. Only variable cost is consider for product costing and inventory valuation.	1. Both fixed cost and variable cost are considered for product costing and inventory valuation.
2. Treatment of fixed overhead is different. Fixed cost is considered period cost and profitability of different products is judged by P/V ratio.	2. The fixed cost is charged to cost of production. Each product is to bear a reasonable share of fixed cost and profitability of product is thus influenced by subjective apportionment of fixed overheads.
3. Presentation of data is oriented to highlight the total contribution and contribution from each product.	3. The presentation of cost data is on conventional pattern. Net profit of each product is determined after deducting fixed overheads.
4. The different in the magnitude of opening stock and closing stock does not affect the unit cost of production.	4. The different in the magnitude of opening stock and closing stock affects the unit cost of production due to the impact of related fixed overheads.

Answer to Question No. 7(b):**A. COMPANY****(i) STATEMENT SHOWING PRESENT COST AND PROFIT**

Particulars	Product A	Product B	Total
I] Production and sales(units)	30000	20000	50000
II] Sales value	360000	400000	760000
III] Variable Costs			
• Direct Material	60000	80000	140000
• Direct labour	90000	100000	190000
• Factory overheads	45000	50000	95000
• Administrative and selling overheads	30000	30000	60000
IV] Total variable costs	225000	260000	485000
V] contribution [II-IV]	135000	140000	275000
VI] Fixed costs			155000
VII] Profit[V-VI]			120000

(ii) STATEMENT SHOWING COST AND PROFIT AFTER DIVERSIFICATION

Particulars	Product A	Product B	Product C	Total
I] Capacity Levels	60%	60%	40%	
II] Product and (units)	18000	12000	30000	60000
III] Sales value Rs.	216000	240000	420000	876000
IV] Variable costs				
• Direct materials Rs.	36000	48000	75000	
• Direct labour Rs.	54000	60000	90000	
• Factory overheads Rs.	27000	30000	45000	
• Administrative & selling overheads	18000	18000	30000	
V] Total variable costs	135000	156000	240000	531000
VII] Contribution (III-IV)	81000	84000	180000	345000
Less profit Cost				
• Factory overheads Rs. 95000				
• Administrative & selling overheads Rs. 60000				
Total Fixed overheads				155000
Profit				190000

(iii) **RECOMMENDATION:** The company should implement the proposed diversification as it has resulted into increase in the profit from Rs. 120,000 to 190,000

Question:

8. Write short notes on any three from the following:

3x5 =15

- (a) JIT;
- (b) Activity Based Costing;
- (c) Benchmarking;
- (d) Uniform Costing
- (d) Flexible budgeting.

Answer to Question No. 8:

SHORT NOTES:

(a) JIT (JUST IN TIME)

JIT is a Japanese method of integrated philosophy by team approach in which the production would draw the right amount of inventory from the preceding stage to sustain the activity. In this process, the production activity on the actual demand, rather than on a predetermined schedule, since the cycle time for production of various models is given only to the final assembly point of mixed production line. The production stages are well connected in tree form. JIT results in lower inventory, higher productivity, faster feedback of defects etc.

(b) ACTIVITY BASED COSTING (ABC):

CIMA defines Activity based Costing as 'cost attribution to cost units on the basis of benefits received from indirect activities e.g. ordering, setting up, assuring quality'. ABC is a costing system which tries to charge the indirect costs to the products and services fairly accurately. If properly implemented it is definitely a better system. The stages of implementing ABC would involve study of the activities involved, to arrive at Activity cost pull and determine the cost drivers and identification of costs with product.

(c) BENCHMARKING:

Benchmarking is a technique for continuous improvement in performance. It involves comparing a firm's products, services or activities against other best performing organizations, either internal or external to the firm. The objective is to find out how product, service or activity can be improved and ensured that the improvements are implemented. It attempts to indicate an activity such as customer order processing needs to be improved and finding a non-rival organization that is considered to represent world class best practice and studying how it performs the activity.

It is a performance measure that provides the driving force to establish high performance and means to accomplish these goals. It is thus a component of a wider improvement process such as business process re-engineering or quality improvement.

Benchmarking performance indicators may include labour cost per unit of output, in a manufacturing concern or fee income per dental surgery in a dental practice.

(d) UNIFORM COSTING:

This is a system wherein different companies in an industry adopt the same methods, principle and procedures of costing. It is NOT a method of costing like job or process costing. Its main purpose is to enable inter-firm comparison and is laid down and enforced by Industries association or chambers of commerce. Before introducing an uniform costing system it is necessary to devise an unambiguous system and articulate it well, if necessary, by detailed

discussion with the various companies in the group. This will help a successful implementation of the system.

Similarly an uniform costing system is developed for large companies having a wide network of branches at different locations for proper and effective control. Use of this system has several advantages to the constituents of the industry. Presentation of information for the industry as a whole, helping to frame a pricing policy by government, ease of interpretation, price fixation etc., are some of the areas which would be benefited by having an uniform costing system.

(E) FLEXIBLE BUDGETING

A flexible budget is defined as a budget which by recognizing the difference in behaviour between fixed and variable cost in relation to fluctuations in output, turnover or other variable factors, is designed to change appropriately with such fluctuations. The principle of flexible budget lies in making series of fixed budgets for different levels of activity. The costs are analyzed according to behaviour, e.g. variable, fixed and semi-variable. The variable expense will be proportionate, the fixed expenses are within a reasonable limit, a function of time and the semi-variable expenses will move in sympathy with production but in less than proportionately.

The flexible budget will show the impact of various expenses on the operational and Budgetary operation of the company. In other words, it will show the budgeted expenses against each item of cost corresponding to different levels of activity. Thus, cost ascertainment at different levels of activity, price fixation, tendering quotation, etc. are facilitated.

A. flexible budget can be prepared under three methods, namely-

- I. Tabular method
- II. The charting method
- III. The ratio method.

A proforma flexible budget under the first method is given below:

FLEXIBLE BUDGET

<i>Normal level of activity:</i>			
<i>Period ending:</i>			
Items	Capacity		
	50%	80%	100%
1. Prime cost			
2. Variable Overheads			
3. Marginal cost			
4. Sales			
5. Contribution (4-3)			
6. Fixed cost			
7. Profit (5-6)			