

Question 8 - Solution

(a)

(i) **29**

Overhead	Basis		Total	Production		Service	
				Dept 1	Dept 2	Dept A	Dept B
Dep of Equipment	Book value	[1]	16,000	6,000[1]	4,000[1]	2,000[1]	4,000[1]
Dep of Factory	Floor area	[1]	20,000	6,000[1]	8,000[1]	4,000[1]	2,000[1]
Factory heating	Volume	[1]	9,600	2,400[1]	4,800[1]	1,600[1]	800[1]
Factory cleaning	Floor area	[1]	2,000	600[1]	800[1]	400[1]	200[1]
Canteen	No. employees	[1]	<u>10,800</u>	<u>3,600[1]</u>	<u>3,600[1]</u>	<u>1,800[1]</u>	<u>1,800[1]</u>
			58,400	18,600[1]	21,200[1]	9,800[1]	8,800[1]

(ii) **8**

	Production		Service	
	Dept 1	Dept 2	Dept A	Dept B
Total Cost	18,600	21,200	9,800	8,800
Apportion Dept A to Production	7,350[2]	2,450[2]	(9,800)	
Apportion Dept B to Production	<u>6,600[2]</u>	<u>2,200[2]</u>		(8,800)
	32,550	25,850		

(iii) **8**

Machine hour absorption rate

Dept 1	$\frac{32,550}{3,000}$	=	€10.85 per machine hour	[4]
Dept 2	$\frac{25,850}{1,000}$	=	€25.85 per machine hour	[4]

(iv) **2**

Re-apportionment:

This is the term used where Service Department costs are re-apportioned between production departments because overheads can only be recovered by being included as part of the cost of production.

(v) **4**

Over-absorption:

Over-absorption is when costs are over recovered – budgeted costs are greater than actual costs. The cost of fuel/power reduced

(b)

(i) **15**

Purchases in units	Cost	Purchases at cost	
3,200	@ €5	16,000	
2,100	@ €7	14,700	
2,000	@ €8	16,000	
<u>1,400</u>	@ €9	<u>12,600</u>	
8,700 Total		€59,300	Total

Credit Sales Units	Credit Sales €	Cash Sales Units	Cash Sales €	Total Sales Units	Total sales €
800 @ 10	8,000	1,000 @ 11	11,000	1,800	19,000
1,000 @ 11	11,000	1,200 @ 10	12,000	2,200	23,000
1,200 @ 11	13,200	1,200 @ 12	14,400	2,400	27,600
<u>1,100 @ 13</u>	<u>14,300</u>	<u>1,000 @ 13</u>	<u>13,000</u>	<u>2,100</u>	<u>27,300</u>
4,100	46,500	4,400	50,400	8,500	96,900

Closing Stock in Units = Opening Stock 3,500 + Purchases 8,700 – Sales 8,500 = **3,700 units** [5]

Closing Stock in €	1,400 @ €9	=	12,600 [2]
	2,000 @ €8	=	16,000 [2]
	<u>300 @ €7</u>	=	<u>2,100 [2]</u>
	<u>3,700</u>		<u>30,700 [4]</u>

(ii) **14**

Trading account for the year ending 31/12/2006

Sales	€	96,900 [3]
Less cost of Sales		
Opening Stock	17,500 [2]	
Purchases	<u>59,300 [3]</u>	
	76,800	
Closing Stock	<u>30,700 [2]</u>	(46,100)
Gross Profit		<u>50,800 [4]</u>