

SECTION 3 (80 marks)
Answer **ONE** question

8. Costing and Stock Valuation

(a) Overhead Apportionment

Stark Ltd has two Production Departments, A and B and two ancillary Service Departments, 1 and 2. The following are the expected overhead costs for the next period.

Overhead	Total €
Depreciation of equipment	24,000
Depreciation of factory buildings	36,000
Factory heating	8,400
Factory cleaning	3,200
Factory canteen	12,600

The following information relates to the Production and Service Departments of the factory.

	Production		Service	
	Dept. A	Dept. B	Dept. 1	Dept. 2
Volume in cubic metres	2,000	4,000	800	1,200
Floor area in square metres	1,200	300	600	300
Number of employees	70	60	15	30
Book value of equipment	€30,000	€10,000	€8,000	€16,000
Machine hours	6,000	4,000		

You are required to:

- (i) Calculate the overhead to be absorbed by each Department stating clearly the basis of apportionment used.
- (ii) Transfer the Service Departments costs to Production Departments A and B on the basis of machine hours.
- (iii) Calculate machine hour overhead absorption rates for Departments A and B.
- (iv) Explain what is meant by 're-apportionment' of overheads.
- (v) Illustrate and explain 'under-absorption' of overheads.

(b) Stock Valuation

Park Ltd is a retail store that buys and sells one commodity. The following information relates to the purchases and sales of the firm for the year 2011.

Period	Purchases on credit	Credit Sales	Cash Sales
01/01/2011 – 31/03/2011	6,800 @ €5 each	1,200 @ €10 each	2,600 @ €9 each
01/04/2011 – 30/06/2011	4,300 @ €6 each	1,400 @ €11 each	3,100 @ €10 each
01/07/2011 – 30/09/2011	5,900 @ €7 each	900 @ €11 each	2,600 @ €10 each
01/10/2011 – 31/12/2011	7,200 @ €8 each	800 @ €12 each	1,600 @ €11 each

On 1/1/2011 there was opening stock of 4,100 units @ €5 each.

You are required to:

- (i) Calculate the value of closing stock using the 'First in/First out' (FIFO) method.
- (ii) Prepare a Trading Account for the year ended 31/12/2011.

(80 marks)