

Question 8

80

(a) Stock Valuation

Purchases in units	Unit Cost	Purchases at cost €
4,000	€5	20,000
2,500	€6	15,000
<u>1,700</u>	€8	<u>13,600</u>
8,200		48,600

<u>Credit Sales</u>			<u>Cash Sales</u>			<u>Total Sales</u>		
Units		€	Units		€	Units	€	
1,000	@	€9	9,000	1,500	@ 12	18,000	2,500	27,000
1,200	@	€11	13,200	1,300	@ 13	16,900	2,500	30,100
<u>1,400</u>	@	€11	<u>15,400</u>	1,200	@ 14	<u>16,800</u>	<u>2,600</u>	<u>32,200</u>
3,600		<u>37,600</u>	4,000		<u>51,700</u>	7,600	<u>89,300</u>	

Closing Stock in Units = Opening Stock 4,500 + Purchases 8,200 – Sales 7,600 = 5,100 units [6]

Closing Stock Valuation:				Units	@	€	=	€	
				1,700	@	€8	=	13,600	[2]
				2,500	@	€6	=	15,000	[2]
				<u>900</u>	@	€5	=	<u>4,500</u>	[2]
				<u>5,100</u>				<u>33,100</u>	[4]

Trading account for the year ending 31/12/2012		€
Sales		89,300 [3]
Less Cost of sales		
Opening Stock	22,500 [2]	
Add Purchases	<u>48,600 [3]</u>	
	71,100	
Less Closing Stock	<u>33,100 [2]</u>	(38,000)
Gross Profit		<u>51,300 [4]</u>

(b) (i)

	Manufacturing	Assembly	Finishing
Budgeted Overheads	€180,000	€99,000	€36,000
Direct Labour Hours	36,000	18,000	4,500
	€5 per DLH [2]	€5.50 per DLH [2]	€8.00 per DLH [2]

(ii)

Selling Price of Job Number 666

		€	€	
Direct materials	(30 x 10.20)		306.00	[5]
Direct Labour				
Manufacturing	(20 x 4.00)	80.00		[2]
Assembly	(6 x 2.50)	15.00		[2]
Finishing	(4 x 3.75)	<u>15.00</u>	110.00	[2]
Budgeted Overheads				
Manufacturing	(20 x 5.00)	100.00		[3]
Assembly	(6 x 5.50)	33.00		[3]
Finishing	(4 x 8.00)	<u>32.00</u>	165.00	[3]
General Administration overhead (30 x 20)			<u>600.00</u>	[3]
Total Cost [75%]			1,181.00	[3]
Profit [25% of selling price]			<u>393.67</u>	
Net Selling Price 100%			<u>1,574.67</u>	[4]

(c)

(i) **Under and over absorption of costs**

	Dept A	Dept B	Dept C
	<u>€160,000</u>	<u>€33,600</u>	<u>46,200</u>
	32,000	48,000	22,000
=	€ 5 per M.H [2]	€0.70 per L.H [2]	€2.10 per LH [2]

(ii)

	Dept A	Dept B	Dept C	Total
	€	€	€	€
Actual overhead incurred	175,000 [1]	29,000 [1]	50,000 [1]	254,000
Absorbed overhead	<u>185,000</u> [1]	<u>28,000</u> [1]	<u>56,700</u> [1]	<u>269,700</u>
Over/Under absorption	<u>10,000</u>	<u>(1,000)</u>	<u>6,700</u>	<u>15,700</u>

Actual Absorbed Overheads

Dept A Actual machine hours x Machine Hour rate = 37,000 x €5.00 = €185,000

Dept B Actual labour hours x Labour Hour rate = 40,000 x €0.70 = €28,000

Dept C Actual labour hours x Labour Hour rate = 27,000 x €2.10 = €56,700

[2]

In department A, the costs incurred were €10,000 less than expected/budgeted and therefore profits are €10,000 greater than expected.

In department B, the costs incurred were €1,000 more than expected/budgeted and therefore profits are €1,000 less than expected.

In department C, the costs incurred were €6,700 less than expected/budgeted and therefore profits are €6,700 greater than expected.

Overall, the costs incurred were €15,700 less than expected/budgeted and therefore profits are €15,700 greater than expected.