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

8. Stock Valuation and Flexible Budgeting

(a) Stock Valuation

Jones Ltd is a retail store that buys and sells one product. The following information relates to the purchases and sales of the firm for the year 2014.

Period	Purchases on credit	Credit Sales	Cash Sales
01/01/2014 – 31/03/2014	4,500 @ €6 each	1,200 @ €10 each	1,100 @ €11 each
01/04/2014 – 30/06/2014	2,400 @ €7 each	2,200 @ €11 each	1,400 @ €12 each
01/07/2014 – 30/09/2014	1,400 @ €6 each	1,400 @ €10 each	1,600 @ €13 each
01/10/2014 – 31/12/2014	2,600 @ €8 each	1,600 @ €11 each	1,100 @ €13 each

On 01/01/2014 there was an opening stock of 5,200 units @ €6 each.

Required:
(i) Calculate the value of closing stock using 'First in/First out' (FIFO) method.
(ii) Prepare a trading account for the year ending 31/12/2014.
(iii) Outline the implications of an incorrect stock valuation.

(b) Boland Ltd manufactures a single component for the aviation industry. The following production costs and output levels have been recorded during July, August and September 2014:

Output Levels	**70%**	**85%**	**95%**
Units	21,000	25,500	28,500
Costs	**€**	**€**	**€**
Direct materials	315,000	382,500	427,500
Direct Labour	231,000	280,500	313,500
Production Overheads	106,800	126,960	140,400
Other overhead costs	71,800	86,200	95,800
Administration expenses	35,000	35,000	35,000
	759,600	911,160	1,012,200

Profit is budgeted to be 20% of sales.

Required:
(i) Separate **production overheads** and **other overheads** into fixed and variable elements.
(ii) Prepare a Flexible Budget for 90% Activity Level using Marginal Costing principles and show the contribution.
(iii) Explain, with examples, 'controllable' and 'uncontrollable' costs.

(80 marks)