

**Q.8 Stock Valuation and Product Costing**

**50**

(a)

(i) **Purchases**

Units	Price	Cost
4,500	€8	€36,000
2,500	€7	€17,500
3,000	€6	€18,000
<u>1,500</u>	€5	<u>€7,500</u>
11,500		€79,000

**Sales**

Units	Selling Price	Sales Revenue
2,800 (1,800 + 1,000)	€10	€28,000
3,200 (2,000 + 1,200)	€11	€35,200
2,200 (1,000 + 1,200)	€12	€26,400
<u>2,900 (1,500 + 1,400)</u>	€13	<u>€37,700</u>
11,100		€127,300

**Closing stock in units** = opening stock (units) + purchases (units) – sales (units)  
 = 5,000 + 11,500 – 11,100 = 5,400 [21]

**Value of closing stock (FIFO)**

Units	Cost	Value €
1,500	€5	7,500 [3]
3,000	€6	18,000 [3]
<u>900</u>	€7	<u>6,300 [3]</u>
5,400		31,800 [4]

(ii)

**Trading a/c for Weston Ltd year ended 31/12/2017**

	€	€
Sales		127,300 [4]
Less cost of sales		
Opening stock	30,000 [2]	
Purchases	79,000 [3]	
Less closing stock	<u>(31,800) [2]</u>	<u>(77,200)</u>
Gross profit		50,100 [4]

(iii) **Prudence concept and valuation of stock [1]**

The prudence concept states caution should be exercised when preparing financial statements. Therefore, only realised profits should be included in the accounts. However, provision should be made for all expected expenses and losses. The prudence concept ensures that profits are not overstated and losses not understated. If closing stock was overvalued then profits would be overstated. Therefore stocks should be valued at the lower of cost or net realisable value.

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**(b) Product Costing**

(i) **Budgeted Overheads**

**Department A**

	<b>Variable</b>	<b>Fixed</b>
	€	€
<u>Budgeted Overhead Costs</u>	<u>20,000</u>	<u>22,000</u>
Budgeted Hours	500	500
Overhead Absorption Rates	€40 per LH [1]	€44 per LH [1]

**Department B**

	<b>Variable</b>	<b>Fixed</b>
	€	€
<u>Budgeted Overhead Costs</u>	<u>18,000</u>	<u>23,000</u>
Budgeted Hours	1,000	1,000
Overhead Absorption Rates	€18 per LH [1]	€23 per LH [1]

**Department C**

	<b>Variable</b>	<b>Fixed</b>
	€	€
<u>Budgeted Overhead Costs</u>	<u>21,000</u>	<u>42,000</u>
Budgeted Hours	1,400	1,400
Overhead Absorption Rates	€15 per LH [1]	€30 per LH [1]

(ii)

**Administration Overhead**

	€
<u>Administration Overhead</u>	<u>55,100</u>
Total Budgeted Hours	2,900
Overhead Absorption Rates	€19 per LH [2]

(iii)

**Calculation of Product Cost and Selling Price**

	€	€
<b>Direct Materials</b> (70 × 16)		1,120 [1]
<b>Direct Labour/Wages</b>		
Department A (50 × 15)	750 [1]	
Department B (120 × 26)	3,120 [1]	
Department C (24 × 34)	<u>816</u> [1]	4,686
<b>Variable Overhead</b>		
Department A (50 × 40)	2,000 [1]	
Department B (120 × 18)	2,160 [1]	
Department C (24 × 15)	<u>360</u> [1]	4,520
<b>Fixed Overheads</b>		
Department A (50 × 44)	2,200 [1]	
Department B (120 × 23)	2,760 [1]	
Department C (24 × 30)	<u>720</u> [1]	5,680
General administration overhead (194 × 19)		<u>3,686</u> [2]
Total cost = 75% of selling price		19,692
Profit = 25% of selling price		<u>6,564</u> [2]
Selling price		26,256 [2]

Due to possible confusion caused by the € symbol in the 'labour hours' column, award full marks to all candidates for Q.8 (b) (i), (ii) and (iii).

(iv) Role of the Management Accountant

The management accountant is a key member of an organisation's management team who makes a vital contribution to the managerial functions of planning, controlling and decision making.

The management accountant is responsible for:

1. Preparing data/gathering information required for formulating plans.
2. Recording costs and providing details of the cost of products and departments.
3. Participation in the creation and executing of budgets.
4. Assisting in the control of operations by comparing actual costs with budgeted costs.
5. Providing data for decisions that require managers to select between alternative courses of action.
6. Ensuring that relevant data is provided to managers on a timely basis and that the data is readily understandable.
7. The valuation of closing stock which is then used in the preparation of financial statements.

**Q.9 Flexible Budgeting**

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(a) (i)

<b>Production overheads</b>	<b>Units</b>	<b>Total Cost</b>
	€	€
High	36,000	186,600
Low	<u>24,000</u>	<u>134,400</u>
Difference	<u>12,000</u>	<u>52,200</u>

The variable cost of 12,000 units is 52,200 therefore the variable cost per unit is €4.35 [7]

Total production overhead cost	132,400	158,500	184,600
Less variable costs [units × €4.35]	<u>(104,400)</u>	<u>(130,500)</u>	<u>(156,600)</u>
Therefore, fixed cost	28,000	28,000	28,000 [7]

(ii)

<b>Other overheads</b>	<b>Units</b>	<b>Total Cost</b>
	€	€
High	36,000	250,800
Low	<u>24,000</u>	<u>169,200</u>
Difference	<u>12,000</u>	<u>81,600</u>

The variable cost of 12,000 units is 81,600 therefore the variable cost per unit is €6.80 [7]

Total production overhead cost	169,200	210,000	250,800
Less variable costs [units × €6.80]	<u>(163,200)</u>	<u>(204,000)</u>	<u>(244,800)</u>
Therefore, fixed cost	6,000	6,000	6,000 [7]