**Activity #1**

**Question #1**

Within the costing system of a manufacturing company, the following expenses have been incurred for the year ended 2016 December 31:

|  |  |
| --- | --- |
| Oils used to lubricate production machinery | 500,000 |
| Motor vehicle licences for trucks | 25,000 |
| Depreciation of factory plant and equipment | 300,000 |
| Commission paid to sales representatives | 1,000,000 |
| Salary of the secretary to the human resource director | 2,000,000 |
| Trade discount given to customers | 320,000 |
| Salary of security guard in the warehouse where raw materials are stored | 2,250,000 |
| Hire of tools | 1,200,000 |
| Fees paid to advertising agency | 300,000 |
| Rent of finished goods warehouse | 1,260,000 |
| Insurance | 500,000 |
| Salary of supervisor working in the factory | 2,325,000 |
| Cost of typewriter ribbons in the general office | 60,000 |
| Protective clothing for machine operators | 470,000 |
| Direct Materials Purchased | 10,000,000 |
| Production workers wages | 3,175,000 |

**Question#2**

One of the products that are manufactured by Blooming Ltd is ZP11. The company has a budgeted capacity of 6,000 units per month and monthly fixed production expenses relating to this product are estimated at $360,000. At the start of January 2015 the company had in store 400 units of the product. During January 2015 the company produced 5,400 units of the product and sold 5,500 units. Administrative and selling expenses for the month of January 2015 were estimated at $500,000 and $250,000 respectively. The following information was also taken from the company’s records for the month of January 2015:

Cost per unit

|  |  |
| --- | --- |
| Details | $ |
| Direct materials | 200 |
| Direct labour | 250 |
| Variable overheads | 100 |
|  | **550** |
| Selling price per unit | $1,300 |

**Required:**

1. Closing stock in units for January 2015. (2 marks)
2. The marginal cost per unit. (1 mark)
3. The full cost per unit. (2 marks)
4. Contribution margin per unit. (2 marks)
5. Profit results using marginal costing for January 2015. (5 marks)
6. Profit results using absorption costing for January 2015. (6 marks)
7. Reconcile the difference in profit obtained under both costing methods. (2 marks)

**Question #3**

At the end of September 2016, there were 880 units of a product manufactured by Limited. The company has a budgeted capacity of 7,000 units and during the month, one unit of the product was sold for $1,500. Production and sales for the month amounted to 6,500 units and 5,800 units respectively. Administrative, selling and production overheads were estimated at $820,000, $780,000 and $910,000 respectively. The following information relating to the product was also extracted from the financial records:

**Cost per unit**

|  |  |
| --- | --- |
| Details | $ |
| Direct materials | 250 |
| Direct labour | 275 |
| Variable overheads | 2 45 |
| Total | 770 |

**Required:**

1. Determine the amount of stock in store at the start of the month. (2 marks)
2. Calculate the full cost per unit of production for September 2016. (2 marks)
3. Prepare profit statement for the month using Marginal Costing. (7 marks)
4. Prepare profit statement for the month using Absorption Costing. (9 marks)
5. Prepare a reconciliation of the profits using the above costing methods (3 marks)
6. For what purpose is marginal costing more useful than absorption costing? (2 marks)

**Question #4**

During August 2015, a company budgeted to produce 5,000 units of Product K. Actual production for the month was 4,800 units. At the beginning of the month the company had in store 500 units of the product. During the month the company sold one unit of the product for $1,500 and there were 400 units of the product at the end of August 2015. Fixed production, administrative and distribution expenses were $1,000,000; $650,000 and $750,000 respectively. The following additional information was made available from the company’s records:

Cost per unit

|  |  |
| --- | --- |
| Details | $ |
| Direct materials | 300 |
| Direct labour | 150 |
| Variable production overheads | 100 |
| Fixed production overhead | 200 |
|  | 750 |

**Required:**

1. Determine the number of units of Product K sold by the company during August 2015.
2. What was the full cost per unit of production?
3. If the company adopted marginal costing techniques what would be the amount of profit/loss reported for August 2015?
4. Use the absorption costing method to show the comparison in the profit/loss obtained in part (c).
5. Show a reconciliation of the profit figures obtained above.
6. State two reasons why you would prefer to adopt the use of absorption costing over marginal costing.