

- 4 Javid manufactures a single product. He currently uses a system of absorption costing but is considering changing to marginal costing.

The following budgeted information is available for one unit of the product.

	\$
Selling price	18
Direct material	7
Direct labour	5

Budgeted production 12 000 units per month
 Budgeted fixed overheads \$36 000 per month

At 1 August, Javid held no inventory.

The following actual results are available.

	August	September
Sales (units)	8 000	12 000
Production (units)	10 000	10 000
Fixed overheads	\$36 000	\$36 000

- (a) Prepare a profit statement for **each** of the months August and September using absorption costing.

Javid
Absorption cost profit statement

	August		September	
	\$	\$	\$	\$

(b) Prepare a profit statement for **each** of the months August and September using marginal costing.

Javid
Marginal cost profit statement

	August		September	
	\$	\$	\$	\$

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(c) Prepare a statement reconciling the absorption cost profit for August with the marginal cost profit for August.

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[2]

(f) Explain **one** difference between a cost centre and a cost unit.

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..... [2]

(g) State how closing inventory is valued using each method of inventory valuation:

(i) first in first out (FIFO)

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(ii) weighted average cost (AVCO).

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Additional information

Javid is investigating the just in time (JIT) method of inventory management.

(h) Explain a principle of the JIT method of inventory management.

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