

- 3 Sparkle produces one product, the Esprit. During the year ended 31 December 2013, the company produced 15 000 units of Esprit and incurred the following total costs:

	\$
Direct materials	90 000
Direct labour	67 500
Variable production overhead	45 000
Fixed production overhead	60 000
Other fixed overheads	25 000

Each Esprit is sold for \$26.00

There was no opening inventory of finished goods at 1 January 2013, and only 13 000 units were sold in the year ended 31 December 2013.

#### REQUIRED

- (a) Calculate the marginal cost of producing one unit of Esprit.

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#### Additional information

Sparkle absorbs fixed production overheads on a unit basis. Other fixed overheads are not absorbed.

#### REQUIRED

- (b) Calculate the cost of producing one unit using absorption costing.

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- (c) Calculate the profit for the year ended 31 December 2013 if Sparkle values inventory on a marginal cost basis.

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- (d) Calculate the profit for the year ended 31 December 2013 if Sparkle values inventory on an absorption cost basis.

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- (e) Prepare a statement reconciling the profit from 3(c) with your profit from 3(d).

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- (f) Explain the reason why valuing inventory on a marginal cost basis produces a different profit figure than valuing it on an absorption cost basis.

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**Additional information**

The directors of Sparkle have discovered that \$7 500 fixed production overhead was incorrectly analysed as direct materials.

**REQUIRED**

- (g) Explain the effect that this error will have on contribution and profit when using marginal costing.

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