

4 G Limited manufactures cakes for celebrations. The company uses absorption costing.

**REQUIRED**

(a) Explain **three** benefits to a business of using absorption costing.

1

2

3

### Additional information

There are two production departments: baking and decoration.  
There are two service departments: stores and maintenance.

Some overheads have already been allocated. The following forecast information is available for the year ending 31 December 2020.

Budgeted overheads to be apportioned

|                        |        |
|------------------------|--------|
|                        | \$     |
| Machinery depreciation | 33 600 |
| Power                  | 45 500 |
| Lighting and heating   | 18 000 |

|                                 | Baking department | Decoration department | Stores department | Maintenance department |
|---------------------------------|-------------------|-----------------------|-------------------|------------------------|
| Floor space (m <sup>2</sup> )   | 4 100             | 2 300                 | 600               | 200                    |
| Kilowatt hours                  | 22 000            | 9 000                 | 1 000             | 3 000                  |
| Machinery (net book value) (\$) | 33 000            | 10 000                | 4 000             | 9 000                  |
| Number of employees             | 14                | 29                    | 4                 | 5                      |
| Issues from stores              | 64%               | 24%                   |                   | 12%                    |
| Budgeted maintenance hours      | 2 500             | 1 800                 |                   |                        |
| Budgeted machine hours          | 86 400            | 37 600                |                   |                        |
| Budgeted labour hours           | 26 300            | 51 000                |                   |                        |

**REQUIRED**

- (b) Complete the table to show the apportionment of overheads and the reapportionment of the service department overheads using suitable bases.

|                                                        | Total   | Baking department | Decoration department | Stores department | Maintenance department |
|--------------------------------------------------------|---------|-------------------|-----------------------|-------------------|------------------------|
|                                                        | \$      | \$                | \$                    | \$                | \$                     |
| Budgeted overheads already allocated                   | 57 620  | 38 530            | 14 150                | 2 800             | 2 140                  |
| Machinery depreciation                                 | 33 600  |                   |                       |                   |                        |
| Power                                                  | 45 500  |                   |                       |                   |                        |
| Lighting and heating                                   | 18 000  |                   |                       |                   |                        |
| Total overheads                                        | 154 720 |                   |                       |                   |                        |
| Reapportionment of first service department overheads  |         |                   |                       |                   |                        |
| Subtotal                                               |         |                   |                       |                   |                        |
| Reapportionment of second service department overheads |         |                   |                       |                   |                        |
| Total overheads                                        |         |                   |                       |                   |                        |

[7]

- (c) Calculate the overhead absorption rate, to **two** decimal places, for each production department using an appropriate basis.

Baking department

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Decoration department

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[4]

- (d) State **two** possible reasons why overheads may be under absorbed.

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2 .....

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[2]

### Additional information

D Limited, a competitor of G Limited, makes a single product. The factory has the capacity to make 850 units per month. Overtime working is not available at this factory.

The following information is available for **each unit** of production and is based on operating at full capacity.

|                  |    |
|------------------|----|
|                  | \$ |
| Selling price    | 49 |
| Direct labour    | 16 |
| Direct materials | 9  |
| Fixed costs      | 12 |

In April 2020 the factory was planned to operate at 80% capacity.

The directors of D Limited have received an offer from Wendy to supply 280 units at \$45 per unit. Wendy stated that the offer would depend on the entire order of 280 units being supplied.

## REQUIRED

- (e)** Calculate the profit for the month of April if the offer from Wendy is accepted.

[6]

- (f) Advise the directors whether or not they should accept the offer from Wendy. Justify your answer.

[5]