

- 4 Y Limited is a furniture manufacturer. One of the company's factories operates a system of absorption costing.

REQUIRED

(a) State **two** limitations of absorption costing.

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[2]

Additional information

The factory makes kitchen tables.

There are two production departments: cutting and assembly.

The following forecast information is available for the year:

| | Cutting department | Assembly department |
|---------------------|--------------------|---------------------|
| Overheads | \$68 400 | \$49 200 |
| Total labour hours | 13 720 | 15 820 |
| Total machine hours | 24 810 | 7 290 |

REQUIRED

(b) Calculate, to **two** decimal places, appropriate overhead absorption rates for **each** department.

Cutting department

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Assembly department

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Additional information

Each kitchen table requires the following.

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| Materials | 4.2 kg at \$4.90 per kg |
| Labour hours: | |
| cutting department | 3.8 hours |
| assembly department | 2.2 hours |
| Machine hours: | |
| cutting department | 2.1 hours |
| assembly department | 1.3 hours |

All direct labour is paid at the rate of \$10.50 per hour.

The selling price of a table is calculated to achieve a gross margin of 40%.

REQUIRED

(c) Calculate the selling price of a kitchen table.

[6]

Additional information

At the end of the year on 31 December 2019 it was discovered that overheads had been over absorbed.

REQUIRED

(d) State **two** reasons why overheads may be over absorbed in a business.

- 1
- 2

[2]

Additional information

At another factory the company manufactures bookcases. The following information is available.

| | |
|----------------------------|------------|
| Selling price per unit | \$55 |
| Materials per unit | \$10 |
| Direct labour per unit | \$21 |
| Fixed costs per month | \$54 000 |
| Factory capacity per month | 3800 units |

Recently demand for the product has fallen due to increased competition and the target profit of \$12 500 per month has not been met.

The directors are considering the following options.

Option A

- 1 Reduce the selling price of each bookcase by \$3 per unit.
- 2 Introduce a sales commission of 5% of selling price.
- 3 It is expected that demand will be 3800 units.

Option B

- 1 Change the design to improve quality resulting in an increase of 20% in the material cost per unit.
- 2 Labour hours per unit will increase by 10%.
- 3 The revised selling price of each bookcase will be \$59.
- 4 Start an advertising campaign at a cost of \$24 000 per annum.
- 5 It is expected that demand will be 3040 units.

REQUIRED

(e) Calculate the forecast profit per month for:

(i) Option A

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(ii) Option B

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