

- 4 K Limited has two production departments. Department A produces bicycles and Department B produces scooters.

The company splits the costs of its maintenance department across the two production departments on the basis of stores requisitions.

**REQUIRED**

- (a) (i) Name the accounting term which describes the splitting of a service department's costs based on stores requisitions.

..... [1]

- (ii) Explain how the cost of direct materials is charged to each production department.

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..... [2]

**Additional information**

K Limited provided the following budgeted information for January 2018.

	Department A	Department B
Production (units)	1 000	1 200
Total production costs	\$	\$
Direct materials	16 000	26 000
Direct labour	18 000	21 000
Indirect materials	4 000	3 000
Maintenance department costs	4 500	7 000
Factory rent	10 000	8 000
Depreciation of factory machinery	<u>10 500</u>	<u>19 000</u>
	<u>63 000</u>	<u>84 000</u>

The selling and distribution costs for January were budgeted to be \$33 000 and the administrative expenses for January were budgeted to be \$66 000. These were to be split between the two departments on the basis of units produced.

The budgeted selling prices were calculated using a mark-up of 25% on **total cost**.

## REQUIRED

(b) State the bases which the company may have used to split **each** of the following costs between the two departments.

(i) factory rent

..... [1]

(ii) depreciation of factory machinery

..... [1]

(c) Calculate the inventory value of **one** bicycle produced by Department A

(i) using marginal costing

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..... [1]

(ii) using absorption costing.

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..... [1]

(d) (i) Calculate the budgeted profit for **one** bicycle.

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..... [4]

(ii) Calculate the budgeted profit for **one** scooter.

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..... [4]

### Additional information

The sales director has suggested that the company should reduce production of bicycles by 500 a month and increase production of scooters by 500 a month.

## REQUIRED

- (e) Advise the directors whether or not they should proceed with this suggestion. Justify your answer using **both** financial and non-financial factors.

[7]

### Additional information

K Limited pays its production workers \$9 an hour.

In January 2018 **actual** results for Department A showed the following.

hours worked	2 100
total overheads	\$76 200

### REQUIRED

(f) Calculate the overhead absorption rate per direct labour hour for Department A.

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..... [3]

(g) Calculate the under-absorption or over-absorption of overheads for Department A in January 2018.

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..... [5]