**Leeming Senior High School**

**Accounting and Finance ATAR (Year 12)**

**Unit 3**

**Task 2**

**Marking Key**

**Assessment Type:**

Test

**Total Marks:**

68 marks

**Conditions:**

**Period Allowed for Completion of the Task:**

60 minutes under invigilated conditions.

**Task Weighting**

5% of the school mark for this pair of units

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**Section 1 (5 marks)**

**Answer the first 5 questions by circling the most appropriate answer.**

1 A company pays its sales staff 8% commission on each car sold. The cost is classified as

1. indirect, period and variable.
2. direct, product and fixed.
3. direct, period and variable.
4. indirect, product and fixed.

2 Manufacturing overheads consist of

1. direct material and not direct labour.
2. indirect material and not indirect labour.
3. direct material and direct labour.
4. Indirect material and indirect labour.

3 Mark-up is the difference between

1. direct costs and indirect costs.
2. cost and selling price.
3. profit achieved and selling price.
4. fixed costs and variable costs.

4 Job order costing would be most appropriate for which of the following industries?

1. Custom bridal wear production
2. Pharmaceutical manufacturing
3. Microchip production
4. Sports shoe manufacturing

5 Cost leadership is a strategy that

1. enables a business to sell its goods or services at the same price as its competitors.
2. Recognises a business as providing a product that is distinct from competing products.
3. Focuses on the lowering of costs to improve the business’ competitive position.
4. Measures a business’ overheads costs in relation to producing goods and services.

**Section 2 (63 marks)**

**Answer the following questions in the spaces provided.**

**Question 7 (26 marks)**

M-Sighrus Ltd manufactures a range of designer hand-beaded kaftans for the local market. It uses a job order costing system. Indirect manufacturing costs are allocated using a predetermined overhead rate based on the cost driver of direct labour hours.

At the beginning of 2020, the budgeted indirect manufacturing costs were forecast to be $1 680 000. The estimated direct labour hours for 2020 were 120 000 hours.

The following information was extracted from M-Sighrus Ltd’s accounting records for the month ended 31 October 2020:

* 2 500 kaftans were manufactured;
* the standard costs for each kaftan were as follows:
	+ direct materials: 3.7 square metres @ $25.00 per square metre; and
	+ direct labour: 2 hours per kaftan @ $18.00 per direct labour hour.
* direct materials purchased and used were 8 750 square metres at $25.50 per square metre; and
* direct labour hours worked were 6 250 hours @ $17.00 per hour.

(a) Calculate the predetermined overhead rate. (2 marks)

**Workings:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Predetermined Overhead Rate** | Budgeted Overhead Cost | $1 680 000 | **$14 Per Direct Labour Hour** | **2 marks** |
| Budgeted Direct Labour Hours | 120 000 |

Predetermined overhead rate: **$14 Per Direct Labour Hour**

(b) Calculate the standard cost for one (1) kaftan manufactured during the month ended 31 October 2020. (6 marks)

 **Workings:**

|  |
| --- |
| **Standard Cost for One Kaftan** |
| Direct Materials (3.7 Square Metres x $25.00) | $92.50 | **2 marks** |
| Direct Labour (2 Hours x $18.00) | $36.00 | **2 marks** |
| Overheads (2 Hours x $14.00) | $28.00 | **2 marks** |
| **Total Cost** | **$156.50** |  |

(c) Calculate the following standard cost variances for the month of October 2020.

1. Direct materials price variance. (4 marks)

**Workings:**

|  |  |
| --- | --- |
| **Direct Materials Price Variance =** | (AP – SP) x AQP |
| ie. (Actual Price of Input – Standard Price of Input) x Actual Quantity of Input Purchased |

|  |  |  |
| --- | --- | --- |
| **Direct Materials Price Variance =** | ($25.50 - $25.00) x 8 750 | **3 marks** |

|  |  |  |
| --- | --- | --- |
| **Direct Materials Price Variance =** | **$4 375 U** | **1 mark** |

1. Direct materials usage variance. (5 marks)

**Workings:**

|  |  |
| --- | --- |
| **Direct Materials Quantity (Usage) Variance =** | (AQI - SQA) x SP |
| ie. (Actual Quantity of Input Issued – Standard Quantity of Input Allowed for Actual Output) x Standard Price of Input |
| Where SQA = SQ x AO |
| ie. Standard Quantity Per Unit x Actual Output in Units Produced |

|  |  |  |
| --- | --- | --- |
| **Direct Materials Quantity (Usage) Variance =** | (8 750 – 9 250 (3.7 x 2 500)) x $25.00 | **4 marks** |

|  |  |  |
| --- | --- | --- |
| **Direct Materials Quantity (Usage) Variance =** | **($12 500) F** | **1 mark** |

1. Direct labour rate variance. (4 marks)

**Workings:**

|  |  |
| --- | --- |
| **Direct Labour Rate Variance =** | (AR - SR) x ADLH |
| ie. (Actual Rate Per Direct Labour Hour Worked – Standard Rate Per Direct Labour Hour Worked) x Actual Direct Labour Hours Worked |

|  |  |  |
| --- | --- | --- |
| **Direct Labour Rate Variance =** | ($17.00 – $18.00) x 6 250 | **3 marks** |

|  |  |  |
| --- | --- | --- |
| **Direct Labour Rate Variance =** | **($6 250) F** | **1 mark** |

1. Direct labour efficiency variance. (5 marks)

**Workings:**

|  |  |
| --- | --- |
| **Direct Labour Efficiency Variance =** | (ADLH - SDLHA) x SR |
| ie. (Actual Direct Labour Hours Worked – Standard Rate Per Direct Labour Hours Allowed For Actual Output) x Standard Rate Per Direct Labour Hour |
| Where SDLHA = SDLH x AO |
| ie. Standard Direct Labour Hours Allowed Per Unit x Actual Output in Units Produced |

|  |  |  |
| --- | --- | --- |
| **Direct Labour Efficiency Variance =** | (6 250 – 5 000 (2 x 2 500)) x $18.00 | **4 marks** |

|  |  |  |
| --- | --- | --- |
| **Direct Labour Efficiency Variance =** | **$22 500 U** | **1 mark** |

**Question 8 (37 marks)**

Well-That’s-Fabulous Ltd is a boutique business that manufactures three different quality desserts. The desserts are:

* Meyroonfive Sundaes;
* Good Bunny Fluff; and
* Me-go’s Sorbet.

The details for each department and the budgeted overheads and cost drivers for 2020 are detailed below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Make It Department** | **Mix It Department** | **Pack It Department** |
| **Estimated Overheads** | $205 000 | $7 700 | $30 000 |
| **Estimated Allocation Base** | 1 000 Machine Hours | 500 Machine Hours | 6 000 Direct Labour Hors |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Direct Materials** | **Direct Labour** | **Machine Hours** |
| **Make It Department** |  | 18 Hours @ $58 Per Hour | 11 Hours |
| Powdered Egg White | $7 500 |  |  |
| Sugar | $5 000 |  |  |
| Corn Syrup | $2 200 |  |  |
| Cream of Tartar | $65 |  |  |
| Vanilla Extract | $120 |  |  |
| **Mix It Department** | Nil | 21 Hours @ $32 Per Hour | 32 Hours |
| **Pack It Department** |  | 52 Hours @ $25 Per Hour | 40 Hours |
| Plastic Tubs | $1 500 |  |  |
| Labels | $650 |  |  |

The batch of Good Bunny Fluff made 10 000 x 180 ml tubs.

(a) Calculate the predetermined overhead rate for each department.

1. Make It Department. (2 marks)

**Workings:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Predetermined Overhead Rate** | Budgeted Overhead Cost | $205 000 | **$205 Per Machine Hour** | **2 marks** |
| Budgeted Machine Hours | 1 000 |

1. Mix It Department. (2 marks)

**Workings:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Predetermined Overhead Rate** | Budgeted Overhead Cost | $7 700 | **$15.40 Per Machine Hour** | **2 marks** |
| Budgeted Machine Hours | 500 |

1. Pack It Department. (2 marks)

**Workings:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Predetermined Overhead Rate** | Budgeted Overhead Cost | $30 000 | **$5 Per Direct Labour Hour** | **2 marks** |
| Budgeted Direct Labour Hours | 6 000 |

(b) Calculate the total cost of the batch of Good Bunny Fluff. (20 marks)

 **Workings:**

|  |
| --- |
| **Total Cost of the Batch of Good Bunny Fluff** |
| **Make It Department** | **Marks** |
| **Direct Materials** | Powdered Egg White | $7 500.00 |  |  | **1 mark** |
| Sugar | $5 000.00 |  |  | **1 mark** |
| Corn Syrup | $ 2 200.00 |  |  | **1 mark** |
| Cream of Tartar | $65.00 |  |  | **1 mark** |
| Vanilla Extract | $120.00 | $14 885.00 |  | **1 mark** |
| **Direct Labour** | 18 Hours x $58.00 Per Hour |  | $1 044.00 |  | **2 marks** |
| **Overheads** | 11 Hours x $205.00 Per Hour |  | $2 255.00 |  | **2 marks** |
| **Total** | **$18 184.00** |  |
| **Mix It Department** |  |
| **Direct Materials** |  |  | $0.00 |  |  |
| **Direct Labour** | 21 Hours x $32.00 Per Hour |  | $672.00 |  | **2 marks** |
| **Overheads** | 32 Hours x $15.40 Per Hour |  | $492.80 |  | **2 marks** |
| **Total** | **$1 164.80** |  |
| **Pack It Department** |  |
| **Direct Materials** | Plastic Tubs | $1 500.00 |  |  | **1 mark** |
| Labels | $650.00 | $2 150.00 |  | **1 mark** |
| **Direct Labour** | 52 Hours x $25.00 Per Hour |  | $1 300.00 |  | **2 marks** |
| **Overheads** | 52 Hours x $5.00 Per Hour |  | $260.00 |  | **2 marks** |
| **Total** | **$3 710.00** |  |
| **TOTAL** | **$23 058.80** | **1 mark** |

(c) Calculate the cost of one tub of Good Bunny Fluff. (2 marks)

 **Workings:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Cost Per Tub** | Cost Per Batch | $23 058.80 | **= $2.31** | **1 mark** |
| No of Tubs In Batch | 10 000 Units | **1 mark** |

(d) Well-That’s-Fabulous Ltd has set its mark up as 120% on cost for Good Bunny Fluff. Calculate the selling price of one tub of Good Bunny Fluff. (3 marks)

 **Workings:**

|  |  |
| --- | --- |
| **Selling Price of One Tub of Good Bunny Fluff** | **Marks** |
| Cost Per Tub | $2.31 | **1 marks** |
| Mark-Up | $2.31 x 2.2 | **2 marks** |
| **Selling Price** | **$5.08** |  |

(e) A business may classify costs in different categories. Explain each of the cost classifications below: (6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **Behaviours:** |
| Explains the cost classification of behaviours | 3 |
| Describes the cost classification of behaviours | 2 |
| Describes some of the cost classification of behaviours | 1 |
| **Subtotal** | **3** |
| **Relationships to Cost Objects:** |
| Explains the relationships to cost objects | 3 |
| Describes the relationships to cost objects | 2 |
| Describes some of the relationships to cost objects | 1 |
| **Subtotal** | **3** |
| **Total** | **6** |
| **Answers could include:****Behaviours:*** Variable costs vary with the level of production or other activity measure. As production increases, variable costs increase proportionally.
* Fixed costs remain the same across levels of production or other activity measure. As production increases, fixed costs do not change.
* Mixed costs have a component of variable costs and a component of fixed costs. As production increases, only the variable component will increase.

**Relationships to Cost Objects:*** Direct costs are directly related/attributable to a cost object. If the cost object is a unit of production then direct material, direct labour and direct overheads are directly traceable to the product.
* Indirect costs are costs incurred but are not directly traceable to a cost object, such as manufacturing overheads for all products.

**Accept any other correct, logical/supportive responses.** |