6.3 Costing systems

Name: _____ Class: _____ Date: _____ **Total: 13 marks**

KEY WORDS overhead • job costing

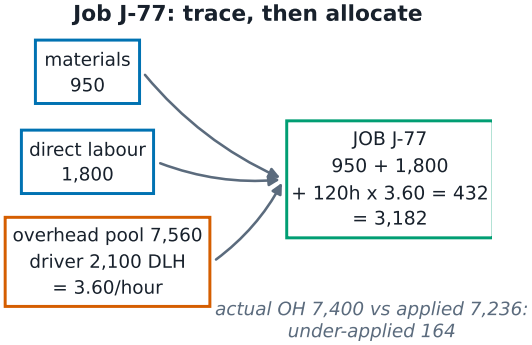
Objective

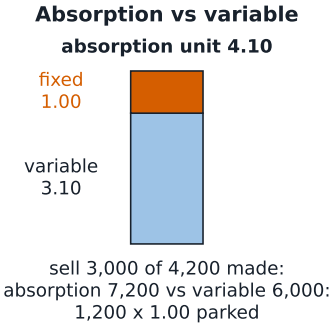
Compute job costs with an overhead rate; reconcile over/under-applied overhead; contrast absorption with variable costing income.

1 Key knowledge and worked examples

■ Trace, allocate, reconcile

Overhead pool ÷ driver = the rate; jobs take driver × rate. The over/under-applied gap reconciles on the costing statement. Absorption parks fixed cost in inventory; variable exposes it – production flatters absorption profit.





Trace what you can, allocate what you must

■ Worked example. Pool 7,560 over 2,100 DLH = 3.60/hr

J-77: 950 + 1,800 + 120 × 3.60 = 3,182 ✓. Actual 7,400 at 2,010 hrs → applied 7,236, under-applied 164 ✓. Make 4,200 sell 3,000: absorption 7,200 vs variable 6,000, gap = 1,200 × 1.00 ✓.

2 Practice

A print shop: budgeted overhead £54,000 over 6,000 machine hours; normal capacity 12,000 jobs at 0.5 hours each; fixed overhead in the pool is £30,000.

2.1 Compute the overhead rate per machine hour. [2]

2.2 Job P-9 uses 25 machine hours, materials £210, direct labour £340. Compute its full job cost. [2]

2.3 The month's actual overhead is £55,100 at 5,900 actual machine hours. Compute applied overhead and state over- or under-applied. [3]

2.4 In September the shop produces 12,000 jobs (normal capacity) and sells 10,000 at £22 with variable cost £12. Compute absorption and variable profit, and reconcile the gap. [4]

2.5 In one line each: when do absorption and variable profit agree, and what management behaviour does absorption profit quietly reward? [2]