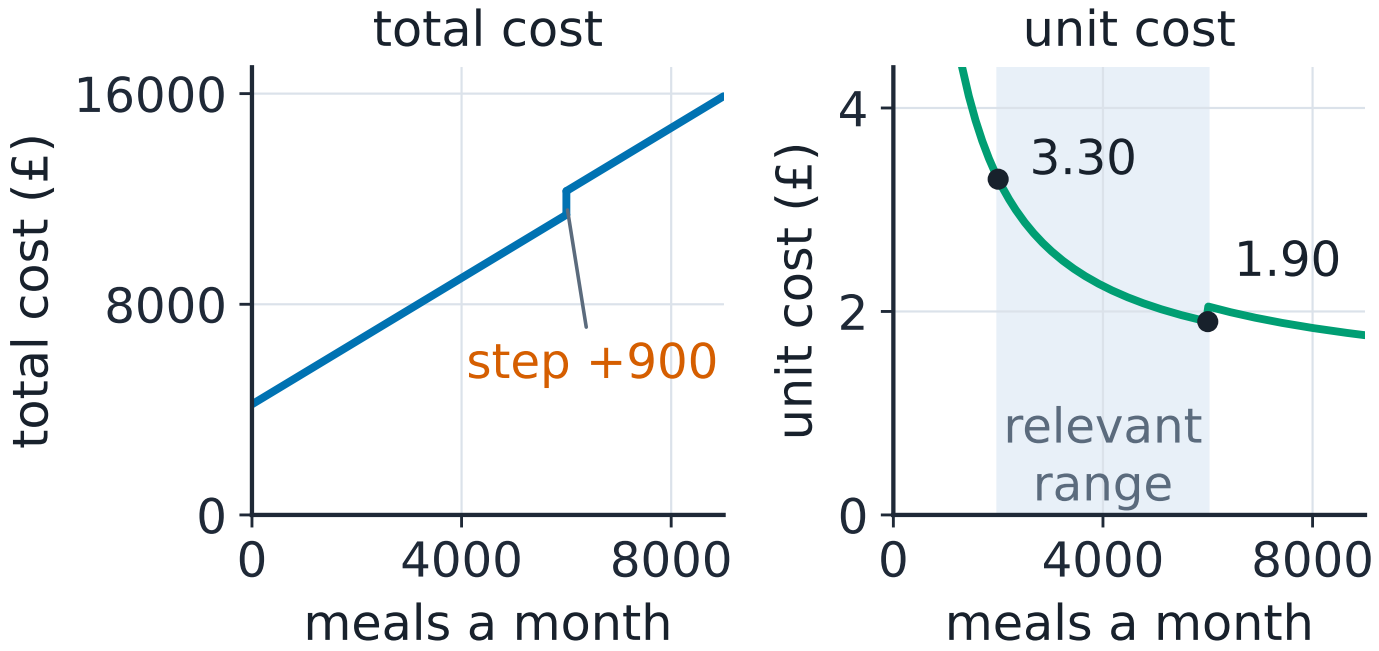
Exercise walk-through

6.3
Costing systems

University Business

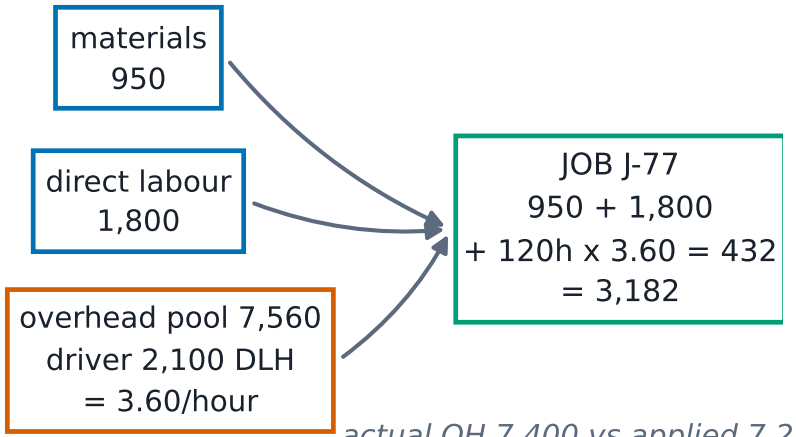
Cost behaviour: date your assumptions



TC = 1.20q + 4,200 with a step at 6,000; unit cost falls with volume.

Costing systems: choose your question

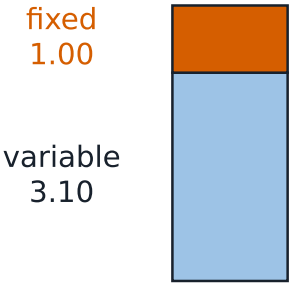
Job J-77: trace, then allocate



actual OH 7,400 vs applied 7,236: under-applied 164

Absorption vs variable

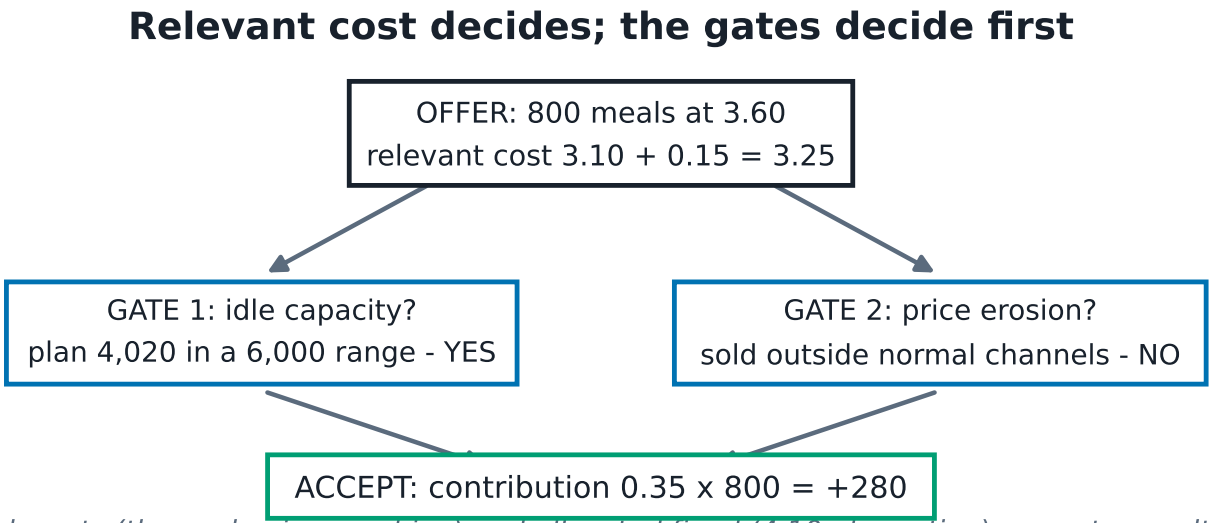
absorption unit 4.10



sell 3,000 of 4,200 made:
absorption 7,200 vs variable 6,000:
1,200 x 1.00 parked

Job J-77 costs 3,182; absorption parks 1,200 of fixed cost in stock.

Relevant costs: only changes get a vote



Pass both gates, then **relevant cost** 3.25 against 3.60 earns +280.

Exercises 2.1·2.2

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]

Exercises 2.1–2.2

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

2.1

- Rate = 54,000/6,000.
- = £9.00 per machine hour.

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

2.2

- Overhead = $25 \times 9 = £225$.
- Job cost = $210 + 340 + 225 = £775$.

Exercises 2.3·2.4

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]

Exercises 2.3·2.4

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]

2.3

- Applied $= 5{,}900 \times 9 = £53{,}100$.
- Actual £55,100 $>$ applied $\rightarrow$ under-applied.
- By £2,000.

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]

2.4

- Fixed OH per job $= 30{,}000/12{,}000 = £2.50$; absorption unit $= 12 + 2.50 = £14.50$.
- Absorption profit $= 10{,}000 \times (22 - 14.50) = £75{,}000$.
- Variable profit $= 10{,}000 \times 10 - 30{,}000 = £70{,}000$.
- Gap £5,000 $=$ 2,000 unsold jobs $\times$ £2.50 parked in inventory.

Exercise 2.5

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

Exercise 2.5

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

2.5

- They agree when production = sales (no inventory movement).
- Absorption rewards PRODUCTION: making for inventory parks fixed cost and lifts reported profit without a sale.