

# LEVEL 4 COSTING INITIAL ASSESSMENT

Hanjoy Limited's budgeted overheads for the next financial year are:	£	£
Depreciation of production machinery		13,200
Power for production machinery		3,960
Rent and rates		11,340
Light and heat		3,150
Indirect labour costs:		
Maintenance	36,300	
Sales	21,200	
Administration	37,380	
<b>Totals</b>	<b>94,880</b>	<b>31,650</b>

The following information is also available:				
Department	Carrying amount of machinery	Production machinery power usage (KwH)	Floor space (square metres)	Number of employees
Production cost centres:				
Moulding	70,000	14,000	100	8
Finishing	40,000	4,000	100	5
Support cost centres:				
Maintenance			100	3
Stores			80	2
Administration			40	3
<b>Totals</b>	<b>110,000</b>	<b>18,000</b>	<b>420</b>	<b>21</b>

**Overheads are allocated or apportioned on the most appropriate basis. The total overheads of the support cost centres are then reapportioned to the two production centres, using the direct method.**

- > 70% of the maintenance cost centre's time is spent maintaining production machinery in the moulding production centre and the remainder in the finishing production centre.
- > The stores cost centre makes 60% of its issues to the moulding production centre, and 40% to the finishing production centre.
- > Administration supports the two production centres equally.
- > There is no reciprocal servicing between the three support cost centres.

**Complete the apportionment table on the next page using the data above.**

Select your entries for the 'Basis of apportionment' column from the following list:

- > Allocated
- > Carrying amount of machinery
- > Floor space
- > Number of employees
- > Production machinery power usage

	Basis of apportionment	Moulding £	Finishing £	Maintenance £	Stores £	Admin £	Totals £
Depreciation of production machinery							
Power for production machinery							
Rent and rates							
Light and heat							
Indirect labour							
Totals							
Reapportion maintenance							
Reapportion stores							
Reapportion administration							
Total overheads to production centres							

**Hanjoy Limited is planning three new components for next quarter, HJ15, HJ16 and HJ17. It has gathered the following data to put together forecasts for the components.**

- 1) The planned production for HJ15 is 1,200 units and the price is £10.00 per unit.  
The planned production for HJ16 is 10% less than HJ15, with a price of £15% more.  
The planned production for HJ17 is 20% more than HJ15, with a price of 10% less.
- 2) Variable costs are £3.50 per component for HJ15.  
Variable costs for HJ16 are 10% less than for HJ15.  
Variable costs for HJ17 are 20% less than for HJ15.
- 3) Fixed costs are £18,000 to be shared 30% to HJ15, 30% to HJ16 and 40% to HJ17.

**(a) You are required to complete the table below to show the forecast contribution and profit for components HJ15, HJ16 and HJ17 for the next quarter. Complete the table rounding to the nearest £.**

	HJ15	HJ16	HJ17
Batches produced and sold			
Revenue and costs			
Revenue			
Variable costs			
Contribution			
Fixed costs			
Profit			

**(b) Why had Hanjoy Limited chosen to apportion the fixed costs between HJ15, HJ16 and HJ17?  
Choose *one* option.**

(a) To comply with accounting standards	
(b) To determine an accurate profit figure for each product	
(c) To make the contribution per product more accurate	
(d) To allow reporting by revenue centre to be more accurate	

**Hanjoy Limited is reviewing costs for the next quarter for component GH02. The cost analysis table below shows cost behaviour per component for four different cost classifications.**

Cost per component				
	At 1000 times	At 1500 times	At 2000 times	At 4000 times
Cost classification 1 (£)				
Cost classification 2 (£)				
Cost classification 3 (£)				
Cost classification 4 (£)				

**Complete the table below by:**

**(a)** Selecting the correct classification for each cost. Select from the following: Variable cost, Semi-variable cost, Stepped fixed cost or Fixed cost

**(b)** Calculating and inserting the cost at 3,000 units for costs 1-4

	Cost classification	Cost of 3,000 units £
Cost classification 1 (£)		
Cost classification 2 (£)		
Cost classification 3 (£)		
Cost classification 4 (£)		

**Hanjoy Limited has the following original budget and actual performance for product HJ30 for the year ending 31 December.**

Hanjoy Limited's budgeted overheads for the next financial year are:	Actual
Volume sold	7,200
	£000
Sales revenue	78
Less costs:	
Direct materials	21
Direct labour	28
Fixed overheads	10
Profit from operations	19

All operating costs are variable except for fixed overheads.

- (a) Complete the table below to show a flexed budget and the resulting variances against this budget for the year. Show the actual variance amount, for sales and each cost, in the column headed 'Variance'. Adverse variances must be denoted with a minus sign.

Cost per component	Original budget	Flexed budget	Actual	Variance
Number of units	8,000		7,200	
	£000	£000	£000	£000
Sales revenue	80		78	
Less costs:				
Direct materials	20		21	
Direct labour	30		28	
Fixed overheads	12		10	
Profit from operations	18		19	

- (b) Identify the variance that was the main reason for the difference between actual profit from operations and the profit per the flexed budget. Tick **one** option.

(a) Sales revenue variance	
(b) Direct materials variance	
(c) Direct labour variance	
(d) Fixed overhead variance	