Answer Key Question(1)

1. D **(2 marks)**
2. E **(2 marks)**
3. D **(2 marks)**
4. A **(2 marks)**
5. A **(1 mark)**
6. A **(1 mark)**
7. B **(2 marks)**
8. C **(2 marks)**
9. B **(2 marks)**
10. E **(1 mark)**
11. B **(1 mark)**
12. A **(1 mark)**
13. C **(1 mark)**
14. E **(2 marks)**
15. D **(2 marks)**
16. E **(2 marks)**
17. E **(1 mark)**
18. B **(1 mark)**
19. D **(1 mark)**
20. D **(1 mark)**

Question 2 (20 Marks)

Summary of Variances

	$(000)		
(Market Size Variance) Industry volume variance = $344 – 260	= $ 84 F		
Market share variance = 220 – 344	= $124 U		
(Sales Quantity) Profit volume variance (net) = 220 – 260	= 40 U		
Sales mix variance = 180 – 220	= 40 U		
(Sales Volume) Profit volume variance (gross)		= $ 80 U	
Sales price variance = $2,000 – 2,000		= 0	
Total marketing variances			= $ 80 U
Variable cost variance = 1,240 – 1,500	= 260 U		
Discretionary fixed cost variance = 180 – 60	= 120 F		
Committed fixed cost variance = 400 – 560	= 160U		
Total cost variances			= $300 U
Total			= 380 U
Actual income – master budget income = –120 – 260			= 380 U

An alternative way:

1. Total budgeted CM	$840
Total standard CM for Actual Quantities 2,000 × .38 =	760
(Sales Volume) Profit volume variance (gross)	80 U

2. Budgeted CM ratio
840/2,100 = .40

(Sales Quantity) Profit volume variance (net)
(2,000 – 2,100) × 0.40 = 40 U

Sales mix variance
2,000(.40 – 0.38) = 40 U

(Sales Volume) Profit volume variance (Gross) 80 U

(Market Size) 3. Industry volume variance
0.10 × $840 = 84 F

Market share variance
(2,000 – [1.1 × 2,100]) × 0.40 = 124 U

4. Sales Price Variance
Since sales were exactly as budgeted. 0

5. Variable cost flexible budget variance

Actual		1,500	
Budget	1,260		
Adj for sales vol 100/2,100 × 1,260	(60)		
Adj for sales mix (.4 – .38)2,000	40	1,240	$260 U

6. Fixed cost flexible budget variance

	Budget	Actual	Variance
Discretionary	180	60	120 F
Committed	400	560	160 U
	580	620	40 U

7. Budgeted net income $260

(Market Size) Industry volume variance 84 F
Market share variance 124 U
(Sales Quantity) Profit volume variance (net) 40 U
Sales mix variance 40 U
(Sales Volume) Profit volume variance (gross) 80 U

Variable cost flexible budget variance 260 U
Fixed cost flexible budget variance 40 U
Actual net loss $(120)

Question 3

1. Purchased materials on account		
Raw Materials	180,000	
Accounts Payable		180,000
2. No entry Required.		
3. Materials requisitioned for production:		
Work in Process	85,000	
Manufacturing Overhead	5,000	
Raw Materials		90,000
4. Factory payroll for January:		
Work in Process	117,000	
Manufacturing Overhead	23,000	
Wages Payable		140,000
5. Expenses recorded with adjusting entries:		
Manufacturing Overhead	52,000	
Accumulated Depreciation		45,000
Prepaid Insurance		7,000
6. Other manufacturing costs not yet paid:		
Manufacturing Overhead	50,000	
Accounts Payable		50,000
Entry to apply manufacturing overhead in January:		
Work in Process	135,000*	
Manufacturing Overhead		135,000
*($15 x 9,000 hours)		
8. Job No. 125 and 126 were completed and transferred to finished goods. (See the job-order cost sheets below for the amounts.)		
Finished Goods	295,000*	
Work in Process		295,000
9. Job No. 125 was sold during the month.		
(See the job-order cost sheets below for the amount.)		
Cost of Goods Sold	184,000	
Finished Goods		184,000
Accounts Receivable	312,800*	
Sales Revenue		312,800
*($184,000 x 170%)		

Job Costs:	Job No. 125	Job No. 126	Job No. 127
Balance	$12,000		
DM	32,000	$ 27,000	$26,000
DL	65,000	39,000	13,000
OH	75,000	45,000	15,000
	$184,000	$111,000	$54,000

10. Manufacturing Overhead	5,000	
Cost of Goods Sold		5,000

To close over-applied overhead.

Question 4

a. Best estimate is $4,000 +/- 1.746* ($300)

$4,000 +/- 1.7645* ($300) or $3,746.20 to $4,523.80

Wrong answer

b. Best estimate is:$2,000:

($2,000-$1,000)/300= 3.33

T table: look at 16 df – 3.33

Answer: Greater than 99 % or there is between 0.005 and 0.005 percent chance that that firm won't earn at least $1,000.

Question 5

1. $360,000

Physical Unit Method:

	A1	B2	Total
Units of Production	120,000	180,000	300,000
Percentage of Total	40.00%	60.00%	
Joint Cost Allocation	$240,000	**$360,000**	$600,000

2. $150,000

Net Realizable Value Method:

Total	A1	B2	
Sales Value of Production	$480,000	$1,440,000	$1,920,000
Less: Separable Costs	0	0	0
Net Realizable Value	$480,000	$1,440,000	$1,920,000

Percentage of Total NRV	25.00%	75.00%	
Allocated Joint Cost	**$150,000**	$450,000	$600,000

3. $5.263

Net Realizable Value Method

	A	B	Total
Sales Value of Production	$1,200,000	$3,200,000	$4,400,000
Less: Separable Costs	200,000	400,000	600,000
Net Realizable Value	1,000,000	2,800,000	3,800,000
Percentage of Total NRV	26.32%	73.68%	
Allocated Joint Cost	$157,920	$442,080	$600,000
Plus: Separable Costs	200,000	400,000	
Total Costs	$357,920	$842,080	
Units Produced	120,000	160,000	
Cost per Unit	$2.983	**$ 5.263**	

4. Yes; ABC should process A1 further.

Increase in sales revenue:	120,000*($10-$4) =	$720,000
Increase in cost		$200,000
Increase in Contribution		**$520,000**

Question 6 – Judgement used to award marks.