

SECTION 3 (80 marks)

Answer ONE question.

8. Stock and Product Costing

- (a) The following information relates to the purchases and sales (exclusive of VAT) of Rafter Ltd for the year 1999:

Period	Purchases on credit	Credit sales	Cash sales
1/1/1999 to 31/3/1999	3,100 @ £6 each	900 @ £11 each	1,500 @ £12 each
1/4/1999 to 30/6/1999	3,400 @ £7 each	1,100 @ £12 each	1,400 @ £11 each
1/7/1999 to 30/9/1999	3,600 @ £8 each	1,300 @ £12 each	1,400 @ £12 each
1/10/1999 to 31/12/1999	1,600 @ £9 each	1,200 @ £14 each	1,100 @ £14 each

On 1/1/1999 there was an opening stock of 1,500 units @ £6 each.

You are required to:

- (a) Calculate the closing stock, using first in first out (FIFO) method.
 (b) Prepare a trading account for the year ended 31/12/1999.
- (b) Rally Ltd is a small company with three departments. The following are the company's budgeted costs and hourly administration overhead absorption rate for the coming year.

Department	Variable Costs	Fixed Costs	Wage rate per hour
A	£15 per hour	£6.50 per hour	£8
B	£10 per hour	£2.50 per hour	£7
C	£12 per hour	£2.00 per hour	£9

General administration overhead absorption rate per hour is budgeted to be £2.50.

The following are the specifications for a quotation for Job No. 655.

Material costs £3,335

Labour hours required in each department are:

Department	Hours
A	80
B	170
C	40

You are required to:

- (a) Calculate the selling price of Job No. 655 if the profit is set at 20% of selling price.
 (b) Give two reasons for product costing and explain each.

(80 marks)