SECTION 3 (80 marks)
Answer **ONE** question

8. Costing and Stock Valuation

(a) Overhead Apportionment

Nevis Ltd has two Production Departments, 1 and 2 and two ancillary Service Departments, A and B. The following are the expected overhead costs for the next period.

Overhead	**Total**
	€
Depreciation of equipment	16,000
Depreciation of factory buildings	20,000
Factory heating	9,600
Factory cleaning	2,000
Factory canteen	10,800

The following information relates to the Production and Service Departments of the factory.

	Production		**Service**	
	Dept. 1	Dept. 2	Dept. A	Dept. B
Volume in cubic metres	1,500	3,000	1,000	500
Floor area in square metres	600	800	400	200
Number of employees	60	60	30	30
Book value of equipment	€15,000	€10,000	€5,000	€10,000
Machine hours	3,000	1,000		

You are required to:

(i) Calculate the overhead to be absorbed by each Department stating clearly the basis of apportionment used.
(ii) Transfer the Service Department costs to Production Departments 1 and 2 on the basis of machine hours.
(iii) Calculate machine hour overhead absorption rates for Departments 1 and 2.
(iv) Explain what is meant by 're-apportionment' of overheads.
(v) Illustrate and explain 'over-absorption' of overheads.

(b) Stock Valuation

Cape Ltd. is a retail store that buys and sells one commodity. The following information relates to the purchases and sales of the firm for the year 2006.

Period	**Purchases on credit**	**Credit Sales**	**Cash Sales**
01/01/2006 to 31/03/2006	3,200 @ €5 each	800 @ €10 each	1,000 @ €11 each
01/04/2006 to 30/06/2006	2,100 @ €7 each	1,000 @ €11 each	1,200 @ €10 each
01/07/2006 to 30/09/2006	2,000 @ €8 each	1,200 @ €11 each	1,200 @ €12 each
01/10/2006 to 31/12/2006	1,400 @ €9 each	1,100 @ €13 each	1,000 @ €13 each

On 1/1/2006 there was opening stock of 3,500 units @ €5 each.

You are required to:

(i) Calculate the value of closing stock using the 'first in first out (FIFO) method.
(ii) Prepare a Trading Account for the year ended 31/12/2006.

(80 marks)