

8. Stock Valuation, Product Costing, Under and Over Absorption**(a) Stock Valuation**

Blue Ltd is a retail store that buys and sells one product. The following information relates to the purchases and sales of the firm for the year 2012.

Period	Purchases on credit	Credit Sales	Cash Sales
01/01/2012-30/04/2012	4,000 @ €5 each	1,000 @ €9 each	1,500 @ €12 each
01/05/2012-31/08/2012	2,500 @ €6 each	1,200 @ €11 each	1,300 @ €13 each
01/09/2012-31/12/2012	1,700 @ €8 each	1,400 @ €11 each	1,200 @ €14 each

On 1/1/2012 there was opening stock of 4,500 units @ €5 each.

Required:

- (i) Calculate the value of closing stock using 'First in/First out' (FIFO) method.
- (ii) Prepare a trading account for the year ending 31/12/2012.

(b) Product Costing

The following is the budgeted yearly overhead details of Grace Ltd, manufacturers of computer equipment which has three production departments.

Production departments	Budgeted Overheads	Budgeted Labour Hours	Wage Rate per hour
Manufacturing	€180,000	36,000 hours	€4
Assembly	€99,000	18,000 hours	€2.50
Finishing	€36,000	4,500 hours	€3.75

Budgeted general administration costs for the year €1,170,000

Details of Job Number 666

Direct Material 30 kgs at €10.20 per kg

Direct Labour Hours	Manufacturing	20 hours
	Assembly	6 hours
	Finishing	4 hours

All orders are priced using a profit margin of 25%.

Required:

- (i) Calculate the overhead absorption rates for each department.
- (ii) Calculate the selling price of Job Number 666.

(c) Under and Over Absorption

The information set out below refers to the budgeted and actual costs of Hake Manufacturing Ltd.

Budgeted	Direct Labour Hours	Machine Hours	Total Overhead
Department A	7,000	32,000	€160,000
Department B	48,000	7,000	€33,600
Department C	22,000	---	€46,200
Actual	Direct Labour Hours	Machine Hours	Total Overhead
Department A	9,000	37,000	€175,000
Department B	40,000	12,000	€29,000
Department C	27,000	---	€50,000

Required:

- (i) Calculate departmental overhead absorption rates for Departments A, B and C.
- (ii) Show the under/over absorption by department and in total for the period. Explain what these figures mean.

(80 marks)