



**ABSORPTION COSTING**

**Q. 1.** ABC Ltd. manufactures a single product and absorbs the production overheads at a predetermined rate of ₹10 per machine hour.

At the end of financial year 2014-15, it has been found that actual production overheads incurred were ₹ 6,00,000. It included ₹ 45,000 on account of 'written off' obsolete stores and ₹ 30,000 being the wages paid for the strike period under an award :

The production and sales data for the year 2014-15 is as under :

Production :

Finished goods	20,000 units
Work - in - progress	8,000 units
(50% complete in all respects)	

Sales :

Finished goods	18,000 units
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The actual machine hours worked during the period were 48,000. It has been found that one - third of the under - absorption of production overheads was due to lack of production planning and the rest was attributable to normal increase in costs.

**You are required to :**

- (i) Calculate the amount of under - absorption of production overheads during the year 2014-15 ; and
- (ii) Show the accounting treatment of under - absorption of production overheads.

**Q. 2.** SWEAT DREAMS Ltd. uses a historical cost system and absorbs overheads on the basis of predetermined rate. The following data are available for the year ended 31st March, 2015.

	₹
Manufacturing overheads	
Amount actually spent	1,70,000
Amount absorbed	1,50,000
Cost of goods sold	3,36,000
Stock of finished goods	96,000
Work - in - progress	48,000

Using two methods of disposal of under - absorbed overheads show the implication on the profits of the company under each method.

**Q. 3.** E-books is an on-line book retailer. The Company has four departments. The two sales departments are Corporate Sales and Consumer Sales. The two support – departments are Administrative (Human Resources Accounting) and Information Systems each of the sales departments conducts merchandising and marketing operations independently.

The following data are available for October, 2014 :

<b>Departments</b>	<b>Revenues</b>	<b>Number of Employees</b>	<b>Processing Time used (in minutes)</b>
Corporate Sales	₹ 16,67,750	42	2,400
Consumer Sales	₹ 8,33,875	28	2,000
Administrative	--	14	400
Information system	--	21	1,400

Cost incurred in each of four departments for October, 2014 are as follows :

Corporate Sales	₹ 12,97,751
Consumer Sales	₹ 6,36,818
Administrative	₹ 94,510
Information systems	₹ 3,04,720

The company uses number of employees as a basis to allocate Administrative costs and processing time as a basis to allocate Information systems costs.

**Required :**

- (i) Allocate the support department costs to the sales departments using the direct method.
- (ii) Rank the support departments based on percentage of their services rendered to other support departments. Use this ranking to allocate support costs based on the step-down allocation method.
- (iii) How could you have ranked the support departments differently?
- (iv) Allocate the support department costs to two sales departments using the reciprocal allocation method.

**Q. 4.** A company has three production departments and two service departments. Distribution summary of overheads is as follows :

Production Departments

A	₹ 13,600
B	₹ 14,700
C	₹ 12,800

Service Departments

X	₹ 9,000
Y	₹ 3,000

The expenses of service departments are changed on a percentage basis which is as follows :

	<b>A</b>	<b>B</b>	<b>C</b>	<b>X</b>	<b>Y</b>
X Deptt.	40%	30%	20%	----	10%
Y Deptt.	30%	30%	20%	20%	----

Apportion the cost of Service Departments by using the Repeated Distribution method.

**Q. 5.** A jobbing factory has undertaken to supply, on average, 200 pieces of a component per month for the ensuing six months any surplus to be sold in the normal market at ₹ 8 p.u. Every month a batch order is opened against which materials and labour hours are booked at actuals. Overheads are levied at a rate per labour hour. The selling price contracted for is ₹ 8 per piece. From the following data present the cost and profit per piece of each batch order and overall position of the order for 1,200 pieces.

<b>Month</b>	<b>Batch Output</b>	<b>Material cost</b>	<b>Direct wages</b>	<b>Direct labour hours</b>
		₹	₹	
January	210	650	120	240
February	200	640	140	280
March	220	680	150	280
April	180	630	140	270
May	200	700	150	300
June	220	720	160	320

The other details are :

<b>Month</b>	<b>Chargeable expenses</b>	<b>Direct labour</b>
	₹	hours
January	12,000	4,800
February	10,560	4,400
March	12,000	5,000
April	10,580	4,600
May	13,000	5,000
June	12,000	4,800