

Question 3 – June 1999, ACCA Paper B2

Torwood Limited is planning to manufacture a compound X72 that will be used in the food industry. The product will be sold for £15.00 per kilo. The company expects the following standards to apply to the production of the compound.

Ingredient M1: 0.25 kilos @ £2.00 per kilo
 Ingredient M2: 0.75 kilos @ £3.00 per kilo
 Labour: 0.20 hours @ £4.00 per hour
 Variable overhead is absorbed @ £6.00 per labour hour
 Fixed overheads are expected to be £6,600 per annum.
 They are absorbed on a unit basis and will accrue evenly over the year

The planned production and sales levels for the first 3 months of the year ending 31 December 2000 are expected to be:

| <i>Month</i> | <i>January</i> | <i>February</i> | <i>March</i> |
|--------------------|----------------|-----------------|--------------|
| Production (units) | 110 | 100 | 120 |
| Sales (units) | 80 | 110 | 100 |

The production levels in January to March are similar to the production levels that are planned for the other 3-month periods during the forthcoming year. The company had no stocks of raw materials or finished goods on 1 January 2000.

Required:

You are required to:

- (a) Produce a detailed standard cost card for 1 kilo of product X72 using:
 (i) absorption costing
 (ii) marginal costing (6 marks)
- (b) Produce a detailed forecast profit and loss account for the three month period ending on 31 March 2000 using:
 (i) absorption costing (16 marks)
 (ii) marginal costing
- (c) Produce a statement reconciling the profit calculated in part (b)(i) with that calculated in part (b)(ii) (3 marks)

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(25 marks)