Accounting Leaving Certificate Higher Level

Past Exam Questions on:

Marginal Costing

2004

8 Marginal Costing

Carroll Ltd produces a single product. The company's profit and loss account for the year ended 3 1/12/2003, during which 60,000 units were produced and sold, was as follows:

	€	€
Sales (60,000 units)		960,000
Materials	331,000	
Direct labour	158,300	
Factory overheads	81,000	
Administration expenses	113,400	
Selling expenses	78,000	761,700
Net profit		198,300

The materials, direct labour and 30% of the factory overheads are variable costs. Apart from the sales commission of €0.70 per unit, selling and administration expenses are fixed.

You are required to calculate:

(a) The company's break-even point and margin of safety.
(b) The number of units that must be sold in 2004 if the company is to increase its net profit by 15% over the 2003 figure assuming the selling price and cost levels and percentages remain unchanged.
(c) The profit the company would make in 2004 if it reduced its selling price to €14, increased fixed costs by €14,000 and thereby increased the number of units sold to 75,000, with all other cost levels and percentages remaining unchanged.
(d) The selling price the company must charge per unit in 2004, if fixed costs increase by 10% but the volume of sales and the profit remain the same.
(e) The number of units that must be sold at €17 per unit to provide a profit of 10% of the sales revenue received from these same units.
(f) List and explain two limitations/assumptions of marginal costing.

(80 marks)

2006

8 Marginal and Absorption Costing

A. Harrrington Ltd., produces a single product. The company's profit and loss account for the year ended 31/12/2005, during which 60,000 units were produced and sold, was as follows:

	€	€
Sales		720,000
Materials	288,000	
Direct labour	144,000	
Factory overheads	51,000	
Administration expenses	96,000	
Selling expenses	68,000	647,000
Net profit		73,000

The materials, direct labour and 40% of the factory overheads are variable costs. Apart from sales commission of 5% of sales, selling and administration expenses are fixed.

You are required to calculate:

(a) The company's break-even point and margin of safety.

(b) The number of units that must be sold at €13 per unit to provide a profit of 10% of the sales revenue received from these same units.

(c) The profit the company would make in 2006 if it reduced its selling price to €11, increased fixed costs by €10,000 and thereby increased the number of units sold to 80,000, with all other cost levels and percentages remaining unchanged.

B. Cloud Ltd., produces 8,000 units of product Z during the year ended 31/12/2005. 6,000 of these units were sold at €6 per unit. The production costs were as follows:

Direct Materials	€0.50 per unit
Direct Labour	€0.80 per unit
Variable Overhead	€0.50 per unit
Fixed Overhead Cost for the year	€3,000

You are required to:

(a) Prepare Profit and Loss statements under Marginal and Absorption costing principles.

(b) Outline the differences between Marginal and Absorption costing. Indicate which method should be used for financial accounting purposes and why. **(80 marks)**

2008

8 Marginal Costing and Separation of Costs

(a) Doyle Ltd produces a single product. The company's profit and loss account for the year ended 31/12/2007, during which 14,000 units were produced and sold, was as follows. The company operated at 70% of capacity in 2007.

	€	€
Sales (14,000 units)		560,000
Materials	120,000	
Direct labour	140,000	
Factory overheads	90,000	
Administration expenses	112,000	462,000
Net profit		98,000

The materials, direct labour and a third of the factory overheads are variable costs. €62,500 of the administration expenses are fixed.

You are required to calculate:

(i) The company's break-even point and margin of safety.

(ii) The profit the company would make in 2008 if it reduced the selling price by 5%, increased advertising by €10,000 and thereby increased sales to 20,000 units with all other cost levels unchanged.

(iii) The number of units that must be sold at €36 per unit to provide a profit of 20% of the sales revenue received from these same units.

(iv) The profit the company would make if a commission of 5% of sales is given to sales personnel and €1 extra per unit spent on enhanced packaging, thereby increasing the sales to 19,000 units at €42 per unit

(v) For what purpose is the Contribution Sales Ratio regularly used? When is the use of this ratio essential?

(b) Mixed costs can be separated into their fixed and variable elements by using records of costs from previous periods. Max PLC manufactures a single component. The following production costs and output levels have been recorded during March, April and May 2007:

Output Levels	**50%**	**75%**	**90%**
Units	10,000	15,000	18,000
Costs	**€**	**€**	**€**
Direct materials	140,000	210,000	252,000
Direct Labour	80,000	120,000	144,000
Production Overheads	66,000	96,000	114,000
Other overhead costs	57,000	83,250	99,000
Administration expenses	25,000	25,000	25,000
	368,000	534,250	634,000

Profit is budgeted to be 15% of sales.

You are required to:

(i) Separate production overheads into fixed and variable elements.

(ii) Separate other overhead costs into fixed and variable elements.

(iii) Prepare a Flexible Budget for 95% Activity Level using Marginal costing principles, and show the contribution. **(80 marks)**

2011

8. Marginal Costing

Ivor Ltd produces a single product. The company's profit and loss account for the year ended 31/12/2010, during which 90,000 units were produced and sold, was as follows:

	€	€
Sales (90,000 units)		1,170,000
Materials	390,000	
Direct labour	236,000	
Factory overheads	82,000	
Selling expenses	105,000	
Administration expenses	130,000	(943,000)
Net profit		227,000

The materials, direct labour and 40% of the factory overheads are variable costs. Apart from sales commission of 5% on sales, selling and administration expenses are fixed.

You are required to calculate:

(a) The company's break-even point and margin of safety.

(b) The number of units that must be sold in 2011 if the company is to increase its net profit by 20% over the 2010 figure, assuming the selling price and cost levels and percentages remain unchanged.

(c) The profit the company would make in 2011 if it reduced its selling price to €11, increased fixed costs by €15,000 and thereby increased the number of units sold to 110,000, with all other cost levels and percentages remaining unchanged.

(d) The selling price the company must charge per unit in 2011, if fixed costs increase by 12% but the volume of sales and profit remains the same.

(e) The number of units that must be sold at €16 per unit to provide a profit of 10% of the sales revenue received from these same units.

(f) (i) List and explain **two** limitations/assumptions of marginal costing.

(ii) Explain what is meant by a step fixed cost.
Roughly sketch a graph of step fixed costs using the following rental payments:

Rent €	€5,000	€12,000	€19,000	€28,000
Output (units)	20,000	30,000	40,000	50,000

(80 marks)