

Source B for Question 2

P Limited manufactures Product Exe and operates a system of standard costing.

Budgeted production and sales of Product Exe is 11 000 units per month. Its standard data per unit of Product Exe was as follows:

Selling price	\$210
Direct materials	4 kilos at \$7.60 per kilo
Direct labour	3 hours at \$10.50 per hour

When the actual results for April 2024 were known the following variances were calculated.

sales price	\$55 000 adverse
sales volume	nil
material price	\$4 290 favourable
material usage	\$8 360 favourable
labour rate	nil
labour efficiency	\$57 750 adverse



2 Read Source B in the insert.

(a) Calculate:

(i) the actual unit selling price

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..... [2]

(ii) the unit selling price which would have given the same actual total contribution in April 2024 as the standard total contribution for the month

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(iii) the actual total quantity of direct materials used (in kilos)

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(iv) the actual price paid per kilo of direct material

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..... [2]

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(v) the actual hours used by direct labour per unit.

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..... [3]

(b) Name the budget which P Limited would have prepared if actual sales units had been more or less than the budgeted 11 000 units.

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(c) Suggest **four** reasons why the company uses standard costs.

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Question	Answer	Marks
2(a)(i)	Calculate the actual unit selling price. 55 000/11 000 = 5 (1) 210 – 5 = \$205 (1)	2
2(a)(ii)	Calculate the unit selling price which would have given the same actual total contribution in April 2024 as the standard total contribution for the month (57 750 – 4290 – 8360) (1)/11 000 = 4.10 (1) 210 + 4.10 = \$214.10 (1) OF OR (55 000 + 57 750 – 4290 – 8360) (1)/11 000 = 9.10 (1) 205 + 9.10 = \$214.10 (1) OF	3
2(a)(iii)	Calculate the actual total quantity of direct materials used (in kilos) 8360/7.60 = 1100 (1) (11 000 × 4) (1) – 1100 = 42 900 kilos (1) OF	3
2(a)(iv)	Calculate the actual price paid per kilo of direct material 4290/42 900 = 0.10 (1) OF 7.60 – 0.10 = \$7.50 (1) OF	2
2(a)(v)	Calculate the actual hours used by direct labour per unit. 57 750/(10.50 × 11000) (1) = 0.5 (1) OF 3 + 0.5 = 3.5 hours (1) OF	3
2(b)	Name the budget which P Limited would have prepared if actual sales units had been more or less than the standard 11000 units. flexible budget statement (1)	1
2(c)	Suggest <u>four</u> reasons why the company uses standard costs. To help cost control/cost reduction (1) To provide a benchmark against which actual results can be compared (1) To help with decision making (1) To motivate staff (1) To use in estimating future requirements for materials or labour (1) To simplify the setting of selling prices (1) To simplify the valuation of inventory (1) To co-ordinate the different functions in the business whilst setting the standards (1) Accept other valid responses. Max 4	4

Question	Answer	Marks
2(d)	<p>Advise the directors whether or not they should use spreadsheets in the preparation of the company's budgets. Justify your answer.</p> <p>For (max 3) Arithmetical errors should be avoided. (1) Speed of calculation will be improved. (1) There is automatic recalculation if one variable is changed. (1) Enables 'what if' questions to be asked. (1) Security can be enhanced with passwords. (1) Information can be easily sent from one office/department to another. (1) Multiple user applications may be available. (1) 'Sort' or 'select' functions may be useful. (1)</p> <p>Against (max 3) Some staff may not be familiar with the software. (1) The budgets will still only be as good as the estimates made. (1) Security of data may be compromised. (1) Errors in data entry can be made. (1) Incorrect formulae can be used. (1)</p> <p>Accept other valid responses.</p> <p>Decision supported by a comment (1)</p>	7