

Accounting assessment

Finance



Answers to Question a) The two feasible overhead rates for the year are either the Direct Labor Hours Rate (DLHR) or the Machine Hour Rate (MHR);

$$\begin{aligned} \text{DLHR} &= (\text{Total manufacturing overhead}/\text{Direct labor hours}) \\ &= (40+200+38+4+6+600+130+402+100), 000/ (100, 000) \\ &= 1520000/100000 \\ &= 15.2 \text{ pounds per DLH} \end{aligned}$$

$$\begin{aligned} \text{MHR} &= (1520000/90000) \\ &= 16.9 \text{ pounds per MH} \end{aligned}$$

(b) The full costing for order No. 101 using each of the rates will be as follows;

$$\begin{aligned} \text{Based on DLHR} &= (15.2 \times 4000) \text{ pounds} \\ &= 60,800 \text{ pounds} \end{aligned}$$

Therefore; Raw Material..... 5000

DLC..... 60,800

65,800 pounds

$$\begin{aligned} \text{Based on MHR} &= (16.9 \times 1900) \text{ pounds} \\ &= 32110 \text{ pounds} \end{aligned}$$

Therefore; Raw Material..... 5000

MHC..... 32110

37110 pounds

(c.) In the application of a manufacturing burden to product, a cost accounting consideration is made based on direct labor hours, direct labor cost, machine hours and units of the product. The discussion of the direct labor hours is normally rampant as opposed to machine hours. This is because machine hours are used where machine activity is the predominant feature of the operation that is to mean, that the factory departments are

mainly composed of machines (Bhimani 2012). Our case in point is predominated by labor hours as opposed to machine operations; therefore, the use of machine hours rate will give us inaccurate cost calculation, which would result into inappropriate burden on the products. Therefore, Direct Labor Hours Rate (DLHR) is preferred for use in calculation the full cost of production.

Costs based on DLH solely depends on how human labor is handled hence to improve on such costs, the direct human labor must be accorded the welfare it deserves so that they are efficient in their operations. Costs based on machine hours on the other hand can be managed based on how efficient and effective the machines are allowed to operate hence reducing the costs or making them manageable. If these costs are not improved, they may inflate cutting into the returns of the operations.

Answers to Question 2

- a. It is not possible to classify all costs in either an organization as fixed or variable costs. This is because depending on the context in which the resource is used, there are many costs, which display a multitude of cost behavior (Bhimani 2012). Hence, the categorization of a cost is dependent on the assumptions made by the analyst.
 - b. Fixed costs are costs, which remain constant irrespective of the activity level while variable costs will often change depending on the level of activity (Bhimani 2012). The classification of any of the above costs wrongly will mean that the costs calculations by the organization will be based on wrong data. This may in turn lead to wrong decisions being made by the management, which is detrimental to the operations of the organization.
 - c. Contribution and profits are majorly different most so when they are taken
- <https://assignbuster.com/accounting-assessment/>

from the income statement due to two major reasons. One, cost of goods sold may include both fixed and variable costs while the calculation of contribution is only based on sales revenue minus variable costs. Secondly, the calculation of contribution should include both selling and administration expenses which in the case of the income statement they come after gross margin calculation (Bhimani 2012).

References

Bhimani, A, 2012, Management and cost accounting (5th ed.), Financial Times/Prentice Hall: Harlow, England.