

Part B: 80 marks (25 marks: discussed-based, 55 marks: calculation-based)

Q1 Job costing (11 marks) – Week 2 (Lecture 4, In-class) (No theory)

- Calculate **product cost** (i.e. pre. OH rate & applied overhead cost) (*NOT use actual MOH*)
- Accounting for **MOH** (i.e. adjustment of over/under applied MOH costs)
- The cost flow: **T-accounts** and **journal entries**
- Overapplied or underapplied overhead should be **closed** at **year end** because month-to-month variations are likely to average out over the year.
- The overapplied or underapplied overhead was **caused** by the **misestimated** manufacturing overhead rate.
- **Purposes of product costing**: Pricing, Performance evaluation, Planning and controlling costs

Q2 Activity based costing (13 marks) – Week 6 (8.34, 8.35)

- Calculate **product cost** under both conventional costing and ABC
- **Types of production**: unit, batch, product, facility level costs
- Discuss underlying **causes of the difference** in product cost under conventional costing and ABC.

Traditional costing systems tend to overstate the cost of high-volume, relatively simple products, and understate the cost of low-volume, relatively complex products.

- First, conventional systems **assume** all MOH costs are volume driven (or **unit level costs**). However, usually a number of the overhead costs are **batch level costs rather than unit level costs**. Small-batch products will consume the **same amount of batch costs** as large-batch products. High-volume product is produced in **large batches**, which will cause relatively **low batch costs per unit**. On the other hand, low-volume product is produced in **small batches**, which will cause relatively **high batch costs per unit**.
- Second, the **high-volume product** is likely to be relatively **simple** to produce and require relatively **little overhead support**. In contrast, the **low-volume product** is likely to be more **complex** to produce and require relatively **more overhead support**. The **level of overhead support** is often **below or above** the level assumed in the average overhead rate used in many conventional systems.
- Is **cost distortion** and the subsequent determination of selling prices are contributing to the company's **profit woes**?

Yes, especially since the company's **selling prices are based heavily on cost**. An **overcosted** product will result in an **inflated selling price**, which could prove **detrimental in a highly competitive marketplace**. Customers will be turned off and will go elsewhere, which hurts profitability. With **undercosted** products, **selling prices may be too low to adequately cover** a product's more accurate (higher) cost. This situation is also troublesome and will result in a **lower income** being reported for the company.