

## ACC200 INTRODUCTION TO MANAGEMENT ACCOUNTING

### ASSIGNMENT worth 25%

You have just been hired as an accountant by New Wave Furniture, a manufacturer of specialised furniture based in South Australia. The furniture is high quality and is priced accordingly. The owner of the company Bradley Price, believes in pricing his products based on how his larger competitors have priced their products as he believes his firm produces furniture which is as good, if not better than the mass producers of furniture.

When you arrived at work on your first day you learned that although the company has been in existence for eight years, it has never had a full time accountant. The accounts had been prepared by Joanne Day, the secretary of Bradley Price with Tim Smythe a part time accountant who would come in once or twice a month to help prepare the accounts. Tim has informed Bradley that he could no longer spare the time to come in and so he has suggested that the firm needs a full time accountant which is why you have been hired. Bradley Price however is still not convinced of the need for a full time accountant. "Look why do we need a full time accountant? At the end of the day we just total up the revenues, total up the expenses and the difference is the profit. Do I need to understand my product costs? Why? I cannot lower my prices if my product costs are lower as I just follow the major retailers in the market, Hardly Normal and King Lee, and price my products based on their prices".

Joanne who has been the secretary cum bookkeeper since the company started has prepared some information for you. Trying to be helpful she has listed the accounts in alphabetical order but she has admitted to not knowing a much about accounting but says "Tim, the part time accountant, has said that we need a Cost of Goods Manufactured Schedule and a Cost of Goods Sold Schedule. I have last years accounts for you so you can prepare these schedules for Bradley". The list of accounts in alphabetical order is in Appendix A.

After four days into your work there was a major fire overnight in the main office that stored the accounts. The manufacturing facility was not affected and work could continue but most of the information about the current years accounts has been damaged and only part of the information is readable. This is shown in Appendix B. Your work on last years accounts has not been affected as you had the information available already however the information about the current month has been affected and not all of it is available.

Bradley Price has told you that the creditors have been asking for s and so you have been working out some additional information .This is as follows:

- a) The predetermined overhead rate was based on \$180,000 overhead and 60,000 direct labour hours annually.Overhead is assumed to be applied evenly throughout the year .
- b) There is only one job in process at 30 April.This job has had \$2,600 materials ,and 300 direct labour hours expended at \$6 per hour .
- c) The accounts payable are for raw material purchases only .The balance in the account on 1 April was \$6,000 .The cheque stubs show payments of \$40,000 had been made to suppliers during April .
- d)The payroll ledger showed that 5,200 direct labour hours had been recorded for the month with all employees being paid \$6 per hour
- e) The finished goods inventory showed \$11000 balance at 1 April
- f) The cost of goods manufactured for April was \$89,000 .

You are now ready to reconstruct the T accounts and give Bradley the information he needs .When you go to tell him that you can now start working on the information Bradley tells you he has spoken to Tim ,their previous part time accountant and that the following information is required :”Tim says we need the following information : Work in Process at the end of April ,raw material purchased in April ,Overhead applied , Cost of goods sold in April and raw materials used in April . He also suggested that we should be looking at whether overhead was under or over applied “.

Required:

Prepare a report ( no more than 9 pages ) for Bradley Price that addresses the following :

- a) The purpose of a product costing system
- b) Preparation of a Schedule of Cost of Goods Manufactured and Cost of Goods Sold for last years accounts.Explain why some items have been excluded from the Schedules.
- c) Complete the T accounts and determine the following :
  - i. Work in Process at the end of April
  - ii. Raw materials purchased in April
  - iii. Overhead applied in April
  - iv. Cost of Goods Sold in April
  - v.Raw materials used in April
  - vi. Over or under applied overhead in April
- d) Discuss how overheads can be under or over applied and how the company should deal with the under or over application

Due date: Tuesday September 23rd at beginning of Tutorial .The assignment may be done in groups and is to be word processed and referenced.

Appendixes A and B follow

## Appendix A

|                                     |        |
|-------------------------------------|--------|
| Administrative salaries             | 2,400  |
| Advertising expense                 | 1,200  |
| Depreciation -factory building      | 800    |
| Depreciation -factory equipment     | 1,600  |
| Depreciation - office equipment     | 180    |
| Direct labour                       | 21,900 |
| Raw material inventory beginning    | 2,100  |
| Raw material inventory ending       | 3,200  |
| Finished goods inventory beginning  | 46,980 |
| Finished goods inventory ending     | 44,410 |
| General liability insurance expense | 240    |
| Indirect labour                     | 11,800 |
| Insurance on factory                | 1,400  |
| Purchases of raw material           | 14,600 |
| Rates on the factory                | 450    |
| Repairs and maintenance of factory  | 900    |
| Sales salaries                      | 2,000  |
| Travel and entertainment expense    | 1,410  |
| Work in process inventory beginning | 1,670  |
| Work in process inventory ending    | 1,110  |

| <b>Raw Materials</b> |        |
|----------------------|--------|
| Bal. 1st April       | 12,000 |

| <b>Manufacturing Overhead</b> |        |
|-------------------------------|--------|
| Actual cost for April         | 14,800 |

| <b>Work in Process</b> |       |
|------------------------|-------|
| Bal. 1st April         | 4,500 |

| <b>Accounts Payable</b> |       |
|-------------------------|-------|
| <hr/>                   |       |
| Bal. 30th April         | 8,000 |

| <b>Finished Goods</b> |        |
|-----------------------|--------|
| <hr/>                 |        |
| Bal. 30th April       | 16,000 |

| <b>Cost of Goods sold</b> |  |
|---------------------------|--|
| <hr/>                     |  |
| <hr/>                     |  |