F2 – LECTURE EXAMPLE 5

Goodtime Ltd manufactures watches which it sells to wholesalers for $25.
The cost card for each watch is as follows:

	$
Direct material	7
Direct labour	8
Variable production overheads	5
Fixed production overheads	0.90
	20.90

There is also a variable selling cost per unit of $0.50

	Year 1 units	Year 2 Units
Normal/budgeted production	12,000	12,000
Actual production	14,000	11,500
Actual sales	13,000	12,500
Actual fixed production overheads	$11,000	$11,000
Actual fixed selling costs	$5,000	$5,000

There is no opening inventory. All variable costs were as per budget for the two years.

Required

(a) Calculate the total budgeted fixed production overhead.
(b) Calculate the profit/(loss) under absorption costing for year 1 and year 2.
(c) Calculate the profit/(loss) under marginal costing for year 1 and year 2.

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