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**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS
F2.1 MANAGEMENT ACCOUNTING
DATE: WEDNESDAY 28, FEBRUARY 2024
MODEL ANSWERS AND MARKING GUIDE**

QUESTION ONE

Marking guide

a) The qualities or attributes of management accounting information	Marks
Relevance	1
Accuracy	1
Timing	1
Understandability	1
Volume/Details	1
Completeness	1
Communication	1
Channel of communication	1
Cost	1

Note: Award 0.5 Marks for stating and 0.5 for describing (each point: 1 mark)

Maximum 7

b) non-manufacturing costs incurred in an organization

Administrative costs	1
Selling costs	1
Distribution costs	1
Finance cost	1
Research and development cost	1

Maximum 5

Note: award 0.5 Marks for stating and 0.5 for describing

c) maintaining the highest levels of integrity 2

Avoid conflict of interest	2
Reject gifts and favors	2
Assist company to achieve objectives	2
Professional communication	2
Do not discredit the professional	2

Maximum 8

Award one mark for stating and one mark for explanation (each point 2 Marks)

Total: 20 Marks

Model answers

(a) The qualities or attributes of management accounting information is explained as below:

- **Relevance:** The information must be relevant for the purpose for which the manager wants to use it.
- **Accuracy:** The information should be sufficiently accurate for the intended purpose. Incorrect information could have serious and damaging consequences.
- **Timing:** The information must be produced in time for it to be used effectively. Information which is not available until after decision is made will be useful only on comparison and long-term control, and may serve no purpose even then.
- **Understandability:** The information must be capable of being understood by the recipient. The information must be clear to the user.
- **Volume/Details:** The amount of details in a statement or report will depend on the recipient level in the organization. Reports to the management must therefore be clear and concise.
- **Completeness:** An information user should have all the information he needs to do his job properly.
- **Communication:** Within any organization, individuals are given the authority to do certain tasks, and they must be given the information they need to do them. Budget must be provided to the managers so as to assist him in controlling the expenditures in his office.
- **Channel of communication:** There are occasions when using one particular method of communication will be better than others. The channel of communication might be the company's in-house journal, a national or local newspaper, a professional magazine, a job Centre or school careers office.
- **Cost:** Information should have some value, otherwise it would not be worth the cost of collecting and filing it. The benefits obtained from the information must also exceed the costs of acquiring it, and whenever management is trying to decide whether or not to produce information for a particular purpose a cost/benefit analysis ought to be made.

(b) The non-manufacturing costs incurred in an organization

- **Administrative costs:** Is the sum of costs associated with the overall management of the enterprise which cannot be readily identified with one of the major functional areas e.g. salary of the factory manager would be seen as a production cost but the salary of the personnel officer will be viewed as administrative cost since the personnel function does work for all other functions of the enterprise.
- **Selling Costs:** Is the sum of costs associated with the securing of orders from customers? Included in this area will be items such as the salaries paid to the salesmen and expenditure on advertising.
- **Distribution costs:** Is the sum of costs associated with warehousing the products and their delivery to customer? The cost of wooden pallets on which products are stacked for delivery to customers and the cost of delivery whether using the company's own vehicles or outside

haulage firm are examples of distribution costs.

- **Finance Costs:** These are costs incurred to secure funds to finance the organization's activities. These include interests on loans and overdrafts, dividends to shareholders, interests on debentures.
- **Research and development Costs:** These are costs that are incurred to invent new products or to modify the existing ones, as well as costs incurred to acquire more information on such products.

(c) maintaining the highest levels of integrity

- Avoid actual or apparent conflicts of interest and advise all appropriate parties of any potential conflict.
- Refrain from engaging in any activity that would prejudice their ability to carry out their duties ethically.
- Refuse any gift, favour, or hospitality that would influence or would appear to influence their actions.
- Refrain from either actively or passively subverting the attainment of the organization's legitimate and ethical objectives.
- Recognize and communicate professional limitations or other constraints that would preclude responsible judgment or successful performance of an activity
- Communicate unfavorable as well as favorable information and professional judgments or opinions
- Refrain from engaging in or supporting any activity that would discredit the profession

QUESTION TWO

Marking guide

Marks

a) Fixed, flexible budget and actual income statement

calculation of sales value (0.5 for each; fixed, flexed, actual income statement)	1.5
Determination of material cost (0.5 for each; fixed, flexed, actual income statement)	1.5
Determination of labour cost (0.5 for each; fixed, flexed, actual income statement)	1.5
Computation of variable overheads (0.5 for each; fixed, flexed, actual income statement)	1.5
Contribution (0.5 for each; fixed, flexed, actual income statement)	1.5
Fixed overheads (flexed budget 0.5; actual income statement 0.5)	1
Net profit (0.5 for each; fixed, flexed, actual income statement)	1.5

Maximum **12**

b) Negative impacts of a budgetary control system in organizational performance

Each correct and well explained point, award 2 Marks	
Suspicion of being manipulated by the budget system	2
Competition between cost centres	2
A discouraging atmosphere	2
concentrate on the short term	2
uncontrollable costs	2
conflict	2
waste within the business	2
Maximum	8
Total	20

Model answers

(a) Fixed budget, flexible budget and actual income statement

Details	Fixed budget	Flexed budget	Actual
	FRW	FRW	FRW
Sales	105,600,000	85,800,000	86,580,000
Less variable cost			
Direct material	(57,600,000)	(46,800,000)	(44,265,000)
Direct labour	(16,800,000)	(13,650,000)	(12,994,400)
Variable overheads	(7,200,000)	(5,850,000)	(5,050,800)
Contribution	24,000,000	19,500,000	24,269,800
Less			
Fixed overheads	(10,200,000)	(10,200,000)	(9,503,200)
Net profit	<u>13,800,000</u>	<u>9,300,000</u>	<u>14,766,600</u>

Workings

Fixed Budget

Sales = selling price * units

$$4400 * 24000 = 105,600,000$$

Direct material

$$2400 * 24000 = 57,600,000$$

Direct labour

$$700 * 24000 = 16,800,000$$

Variable overheads

$$300 * 24000 = 7,200,000$$

Flexed budget

Flexing index=actual units/budgeted units =19500/24000 =0.8125

Alternatively, just use this formula to arrive at flexed budget

Cost per unit for each cost element × actual units of output.

Note: Flex all variables in the fixed budget

Fixed overheads are not flexed.

(b) The negative of a budgetary control system in organizational performance.

- Suspicion of being manipulated by the budget system: it is seen as a pressure device.
- Competition between cost centers may arise and thus diminish the unifying effect of budgetary control.
- A discouraging atmosphere will be created by failure to commend favorable results, and by criticism of adverse results.
- Standard costing and budgetary control systems concentrate on the short term. It must be recognized that managers may therefore be placed in a situation whereby they make decisions that satisfy the short-term control systems but damage the future position of the business. For example, a manager may decide to reduce his research and development costs in order to stay within budget. This may satisfy the short-term objectives but will clearly have long-term implications for the business.
- Standard costing and budgetary systems sometimes include in operating statements a number of costs over which the manager has no control. This approach can be counter-productive and demotivating as a manager cannot be held responsible for costs that he cannot control.
- Unless constant vigilance is maintained it will be possible for managers to incur expenditure but have it charged to another manager's cost centre. This practice can result in conflict within the business which can cause a great deal of harm.
- Managers may feel that they have fully to spend their budgets so as to justify their original predictions and in so doing avoid having their following year's budget reduced. This approach may cause waste within the business

QUESTION THREE

Marking guide

Mark(s)

a) Make or buy decision

Cost per unit and advice

8

(award 0.5 mark for correct computation of specific fixed cost ($0.5 * 4=2$))

(1mark for each correct value for cost per unit (manufacturing) ($1*4=4$))

(1 mark for each correct economical decision; $1*2=2$)

Maximum

8

b) Relevant cost-Material A

Current price

1

Revised price

1

Relevant cost

1

MATERIAL B

Net realizable value

2

SKILLED LABOUR

Actual cost

1

Opportunity cost

2

Relevant cost

2

Maximum

10

Total

20

Model answers

a) i. Make or buy decision

Particulars	WEE	EXE	YEE	ZEE
Material cost	80	100	40	80
Labour cost	160	180	80	120
Variable overhead	40	60	20	40
Specific fixed cost	60	25	15	50
Cost per unit	340	365	155	290
Outsourcing	240	420	200	280

Advice

For products WEE and ZEE, the company should outsource because it is economical to purchase than manufacture them locally. And for products EXE and YEE the company should manufacture internally because it is cheaper.

ii. other factors to consider

Variable production cost: It is a necessary cost because it relates to the total cost of making the product. Fixed costs are not relevant costs.

Opportunity cost: it relates to the potential benefits that are foregone by choosing one alternative i.e either make in-house or outsource.

Attributable specific fixed cost: Only additional fixed costs that are specific to the product to be manufactured should be considered. General fixed costs are not relevant costs.

b) Relevant cost

Material A

The material is ordinarily used in the organization and therefore its relevant cost is the current price of the material.

Cost last month = FRW 1862,000 / 19,000 kg = FRW 98

Revised cost (+4%) = FRW 98 × 1.04 = FRW101.92

Relevant cost of Material A = 30,000 kg × FRW101.92 per kg = FRW3,057,600

Material B

The material is not required for normal production; therefore, the relevant cost of this material will be the net realizable value if it were sold. (opportunity cost)

Relevant cost = 2000 kg × FRW1100 per kg = 2,200,000

Skilled labour

The relevant cost will be the actual cost and the opportunity cost. This is due to the fact that the skilled labour is in short supply. By engaging the skilled labour, product C will not be produced.

Details		FRW
Cost of skilled labour (8000 hours ×950)		7,600,000
Opportunity cost		
Skilled labour cost per unit of Product C	3800	
Cost per skilled labour hour	950	
Number of hours required per unit of Product C (3800/950)	4	
Contribution per unit of Product C	4000	
Contribution per skilled labour hour (4000/4)	1000	
Opportunity cost of skilled labour (8000*1000)		8,000,000
Total		15,600,000

Total relevant costs of this contract will therefore be

Details	FRW
Material A	3,057,600
Material B	2,200,000
Labour	15,600,000
Total	20,857,600

QUESTION FOUR

Marking guide

Marks

a) (i) Break-even point in sales

Sales	0.5
Direct material	0.5
Direct labour	0.5
Direct overheads	0.5
Selling and distribution	0.5
Total variable cost	0.5
Contribution	1

Contribution ratio	1
Break-even sales	1

Maximum marks 6

ii) Margin of safety

Formula	1
Calculation	1
Maximum Marks	2

iii) To make a profit of 24m

Formula for Target sales	1
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F2.1

Calculation	1
Maximum Marks	2
Solution to labour shortage	
Recruit and train additional personnel	1
Overtime	1
Outsourcing	1
Second shift	1
Discontinuing a product	1
Maximum Marks	5
Any other valid limitation	
CVP analysis limitations	
Time consuming	1
Applicable to a single product	1
Lacks accuracy and precision	1
Limited significance of cost data	1
Maximum Marks	5
Total Marks	20

Model answers

a) Break even sales Contribution

Sales	150,000,000*97%	145,500,000
Less Variable cost		
Direct material	32,500,000*97%	31,525,000
Direct labour	27,000,000*100 %	27,000,000
Variable Overhead	35,000,000*97%	33,950,000
Selling and Distribution cost	13,000,000*96%	12,480,000
Total Variable cost		104,955,000
Contribution		40,545,000
Contribution ratio	40,545,000/145,500,000	0.28

Break even sales = Fixed cost/ contribution ratio

= (10,000,000+10,500,000)/ 0.28 = FRW 73,214,286

(ii) **Margin of safety** = Actual sales – break even sales = 145,500,000 – 73,214,286=
72,285,714

(iii) **To get target profit of 24 million**

(iv) To get target sales = (target profit +Fixed cost)/ contribution ratio =
(24,000,000+20,500,000)/0.28=158,928,571.40

b) Ways of solving labour shortages

- i) Recruit and train additional personnel.
 - ii) Resort to employing existing labour on an overtime basis. During the overtime periods, a premium would be paid which would have to be more than offset by the additional contribution. Also to be considered is whether fixed costs and variable overhead will change as a result of the extended use of personnel and facilities. In addition, the effect of the overtime on labour efficiency should be considered.
 - iii) The production might be contracted out to another manufacturer. In this case the main factor would be the external contract price which would have to be included in the contribution analysis.
 - iv) Install a second shift.
 - v) Addition/Discontinuance of Products
- c) Limitation of CVP analysis**

- The CVP analysis is time consuming
- The analysis is only applicable to a single product
- Where there is difficult in classifying costs between variable and fixed, it is difficult to apply it
- At all levels of output, it assumes that sales price remains constant
- At all levels of output, it assumes that unit variable cost is constant
- At all levels of output, it assumes that fixed cost is constant which is not practicable in the long run
- Inventory is not taken into consideration
- It is not useful for production planning

QUESTION FIVE

Marking guide

Mark(s)

(a) standard cost card

2

Marginal costing

Correct sales figure

1

Correct valuation of production cost and closing stock

1

Correct valuation of gross and net contribution

1

Correct valuation of net profit

1

Maximum

4

Absorption costing

Correct sales figure

1

Correct valuation of production cost and closing stock

1

Correct valuation of gross and net profit

2

Maximum

4

Reconciliation statement

2

(a) differences between marginal and absorption costing

Purpose

2

Calculation

2

Profitability

2

Use

2

Maximum

8

Award 1 mark for stating and 1 mark for explaining

Total

20

Model answers

(a)

Standard cost card for production

Cost element	Marginal costing approach	Absorption costing approach
Direct material	1200	1200
Direct labour	300	300
Variable overheads	250	250
Fixed overheads	-	450
Total production cost per unit	1750	2200

Net profit using marginal costing approach

Particulars	FRW	FRW
Sales (15,000*3000)		45,000,000
Less variable production cost		
Opening inventory	-	
Production (20,000*1750)	35,000,000	
Closing inventory (5000*1750)	(8,750,000)	<u>(26,250,000)</u>
Gross contribution		18,750,000
Less other variable costs		
Sales commission	2,500,000	
General expenses	1,600,000	<u>(4,100,000)</u>
Net contribution		14,650,000
Less fixed overheads		
Production	9,000,000	
Selling and distribution	2,400,000	<u>(11,400,000)</u>
Net profit		<u>3,250,000</u>

Net profit using absorption costing approach

Particulars	FRW	FRW
Sales (20,000*3000)		45,000,000
Less production cost		
Opening inventory	-	
Production (20,000*2200)	44,000,000	
Closing inventory (5000*2200)	(11,000,000)	<u>(33,000,000)</u>
Gross profit		12,000,000
Less non production costs		
Sales commission	2,500,000	
General expenses	1,600,000	
Selling and distribution	2,400,000	<u>(6,500,000)</u>
Net profit		<u>5,500,000</u>

Reconciliation statement

Particulars	FRW	FRW
Profit as per marginal		3,250,000
Adjust for:		
Opening inventory		-
Closing inventory	(8,750,000- 11,000,000)	2,250,000
Profit as per absorption		<u>5,500,000</u>

Note:

The closing inventory in the case marginal costing was under casted, therefore, the difference between the two valuation methods should be added to the profit as per marginal
Where the reconciliation statement is prepared starting with the profit as per absorption, the difference should be deducted.

(b) The key differences between marginal and absorption costing are discussed below:

- **Purpose** – marginal costing enables well informed short-term decision making, and absorption costing calculates the cost of output as well as providing the closing inventory valuation for inclusion in the financial statements.
- **Calculation** – marginal costing is based on variable costs but excludes fixed costs and absorption costing includes both direct and indirect cost. Generally, if a cost is variable it is also direct, therefore, the addition of fixed overheads to the marginal cost will give the full absorption cost.
- **Profitability** – when there is closing inventory there will be a difference in the profits calculated by the two methods. The difference in profit will be explained by the difference in the value of the closing inventory.
- **Use** – marginal costing is not allowed for financial reporting purposes whereas absorption costing can be used for both financial and management accounting.

QUESTION SIX

Marking Guide

	Marks
a) Explanation of approaches to budgeting and functional budgets	
i) Identification of limiting factors	
Raw Materials	
Identification of raw materials available	0.5
Correct calculation of raw materials needed (0.5 marks for each product) (0.5 * 3)	1.5
Labour	
Identification of labour hours available	0.5
Correct calculation of labour hours needed (0.5 marks for each product) (0.5 * 3)	1.5
Choice of raw materials as the only limiting factor	<u>1.0</u>
Maximum marks awarded for part (a) i)	5.0
ii) Calculation of contribution per unit of limiting factor	
Correct computation of contribution per unit for all the four products	1.0
Use of raw materials per kg as the limiting factor	1.0
Correct calculation of contribution per unit of limiting factor (0.5 marks for each product)	<u>2.0</u>
Maximum marks awarded for part (a) ii)	4.0
iii) Calculation of optimal production plan and total contribution	
Correct ranking of the products	1.0
Allocation of scarce resources (raw materials needed)	1.0
Computation of raw materials remaining	1.0
Computation of optimal production plan (units produced)	1.0
Calculation of total contribution	1.0
Clear conclusion on optimal plan and contribution	<u>1.0</u>
Maximum marks awarded for part (a) iii)	6.0
b) Factors to be considered before outsourcing	
1 mark awarded for each clear point explained (1 mark * 5)	<u>5.0</u>
Maximum marks awarded for part b	<u>5.0</u>
Total	<u>20 Marks</u>

Model Answers

(a)

- (i) **Determine whether raw materials or labour or both raw materials and labour are limiting factors**

Limiting factor exists when the resources needed are more than the resources available.

Raw Materials

Raw materials available		4,000	kgs		
Raw materials needed =	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	
Units	300	420	250	200	
Kgs per unit	4	6	2.5	5	
Total kgs needed	1,200	2,520	625	1,000	
Raw materials needed =	1,200 + 2,520 + 625 + 1,000 =				5,345 kgs

Raw materials needed are 5,345 kgs while available are 4,000 kg therefore raw materials are a limiting factor.

Labour

Labour hours available		2,000	hours		
Labour hours needed =	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	
Units	300	420	250	200	
Hours per unit	2	1	1.5	2	
Total hours	600	420	375	400	
Total labour hours needed =	600 + 420 + 375 + 400 =				1,795 hours

Labour is not a limiting factor because the hours needed (1,795) are less than the hours available (2,000) Only raw material is a limiting factor and not labour.

- (ii) **Calculate contribution per unit of limiting factor**

	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
Selling price per unit (Frw)	6,000	8,280	4,800	5,400
Less: Variable cost per unit (Frw)	<u>4,050</u>	<u>3,800</u>	<u>2,920</u>	<u>3,650</u>
Contribution per unit (Frw)	<u>1,950</u>	<u>4,480</u>	<u>1,880</u>	<u>1,750</u>
÷ Raw material kgs per unit (kgs)	4	6	2.5	5
Contribution per unit of Limiting factor (Frw)	488	747	752	350

- (iii) **Find the optimal production plan and total contribution**

	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
Contribution per unit of Limiting factor (Frw)	488	747	752	350
Ranking	3rd	1st	2nd	4th
Raw materials available	4,000			
Raw materials needed	5,345			

Rank	Product	Units	Kgs needed	Kgs Remaining	Contribution per unit Frw	Total Contribution Frw
1st	B	420	(420*6) 2,520	(4000 - 2520) 1,480	4,480	1,881,600
2nd	C	250	(250*2.5) 625	(1480 - 625) 855	1,880	470,000
3rd	A	213.75	855	-	1,950	415,350
4th	D	-	-	-	-	-
Total Contribution						2,766,950

Conclusion

The optimal production plan is to make 420 units of B, 250 units of C and 213 units of A to give total contribution of FRW 2,766,950.

(b) Explain five factors to be considered before outsourcing

- 1) Quality: The quality of products or services the business is outsourcing to must be of the standard acceptable. There must be an assurance that the right quality of products or services will be provided
- 2) The management will also need to assured of continuity of supply of goods and services. There must be a guarantee that supply of what will be needed will not stop before the contract signed is expired.
- 3) There must be an agreement of a fixed price at which the products or services will be exchanged. If prices are to change, it must be clear under what conditions and the limits.
- 4) The management should investigate whether the available capacity freed up can be used to generate additional profits from a different product.
- 5) Management should consider whether labour morale will be adversely affected by a decision to outsource

Cost implication – purchasing when compared to local manufacture which one is cost effective

QUESTION SEVEN

Marking Guide

	Marks
a) Scope of management accounting	
2 marks awarded for each clear explanation (2 marks * 5)	<u>10.0</u>
Maximum marks awarded for part a	10.0
b) Preparation of job cost statement	
Calculation of prime cost (1 mark for each job * 2)	2.0
Calculation of marginal cost (1 mark for each job * 2)	2.0
Calculation of absorption cost (1 mark for each job * 2)	2.0
Calculation of total cost (1 mark for each job * 2)	2.0
Conversion of margin to mark up	1.0
Calculation of job price	<u>1.0</u>
Maximum marks awarded for part b	10.0
Total	<u>20 Marks</u>

Model Answers

(a) Explain five scope of management accounting fields or systems

Scope of management accounting is very vast and includes various aspects of the business activities. Management accounting has its scope in the following fields or systems:

1. Financial accounting

It is the foremost and indispensable part of accounting. In this system, business transactions of financial character are recorded in the proper subsidiary book. Posting of these transactions is done in ledger and from this the final accounts are prepared. Final accounts include profit and loss account and balance sheet. Profit and loss account represents the profit/ loss earned during the accounting period and the balance sheet represents the financial position of a company as on a particular date. Financial accounting is the foundation from management accounting as it provides the necessary information for preparation of details and reports to be presented to the management.

2. Cost Accounting

Cost accounting is one of the important branches of accounting. It ascertains the cost of producing a particular commodity and rendering of services cost of selling and distribution. It facilitates effective planning regarding commodities, proper decision-making and cost control. Some of the important tools of cost accounting are marginal costing, standard costing and budgetary control.

3. Revaluation accounting

Revaluation accounting ensures that capital is represented at its real value in the accounts and the profit has been calculated keeping this fact in mind. In other words, it assures that the assets are revalued according to the need and its effect has been brought into the accounts. Management accounting helps to ascertain the revalued figures of the assets.

4. Control accounting

Controlling means to measure the variation, if any, between actual and the standard results and taking corrective measures to remove that variation. Management accounting is the indispensable part of control accounting, budgetary control, inventory control, equality control are some of the important techniques of management accounting for control accounting.

5. Statistical methods

Management accounting is concerned with presentation of accounting information in the most impressive and understandable manner. It makes use of graphs, charts, index numbers, pictorial presentation and other statistical methods in order to make the information more intelligible. For scientific analysis of financial statement and accounting information various statistical techniques such as mean, standard deviation, covariance, correlation, t-test, etc and used in management accounting.

6. Interim reporting

Interim reporting means preparation of reports on monthly, quarterly and half-yearly basis. These reports include income statement, cash flow statement, funds flow statement, scrap reports etc.

7. Internal audit

Internal audit means audit of various departments by the internal members of the organization. The techniques of management accounting can be used to judge the efficiency and economy of the organization. Ratio analysis and funds flow analysis are widely used to judge the efficiency of an organization.

8. Taxation

Tax planning and its management is an essential function of the management. It includes computation of income as per tax laws, filing of returns and payment of tax within stipulated time.

(b) Calculate the price that IFH will charge for of job number 6101 and 6102 inform of a statement. Clearly show the prime cost, marginal cost, absorption cost, total cost and job price for each job.

<u>IFH Job Cost Card for Job 6101 and 6102</u>			
		<u>Job 6101</u>	<u>Job 6102</u>
Direct materials	(50 kgs * Frw 500)	25,000	(35 kgs * Frw 800)
Direct labour	(25 hrs * Frw 1,500)	37,500	(18 hrs * Frw 1,750)
Prime cost		<u>62,500</u>	<u>59,500</u>
Add: Variable production overheads	(25 hrs * Frw 400)	10,000	(18 hrs * Frw 560)
Marginal cost		<u>72,500</u>	<u>69,580</u>
Add: Fixed production overheads (W1)	(25/43) * 45,000	26,163	(18/43) * 45,000
Absorption costs		<u>98,663</u>	<u>88,417</u>
Add: Non production overheads		<u>15,000</u>	<u>15,000</u>
Total cost of job		<u>113,663</u>	<u>103,417</u>
Add: profit mark up (W2)	(25% * 113,663)	28,416	(25% * 103,417)
Job Price		<u>142,078</u>	<u>129,272</u>

Workings

W1)	Total labour hours (25 hrs + 18 hrs) =	43	
	used in apportionment of fixed production overheads		
W2)	Conversion of margin to mark up =	$20/100 - 20 = 20/80 =$	25%

END OF MARKING GUIDE AND MODEL ANSWERS