

MANAGEMENT ACCOUNTING I

MANAGEMENT

School Year 2014/2015

Case 3 for assessment

LIFE company produces several joint products, according to the following manufacturing process:

- The material M1 is converted at Stage A and then the intermediate product P1 and the by-product S are obtained.
- The by-product S cannot be sold without being firstly packed in a manufacturing process.
- The intermediate product P1 is converted at Stage B, together with the material M2 and then the co-products P and Q are obtained.
- The co-product Q is marketed after additional conversion at Stage C.

Regarding March of the year N the following data are known:

1 – Products variations:

	Opening stock	Production	Sales	Selling price
Co-product P	400 l at 8 € /l	5 000 l	5 200 l	10 € /l
Co-product Q	800 l at 6 € /l	3 000 l	2 800 l	7.5 € /l
By-product S	0	3 000 l	2 000 l	3 € /l

2 – Conversion costs:

Stage A	32 000 €
By-product package	3 000 €
Stage B	15 000 €
Stage C	5 250 €

3 – Materials consumption:

Material M1	7 000 €
Material M2	5 500 €

4 – Non-manufacturing expenses:

Administrative (fixed)	4 000 €
Selling (distribution) (fixed)	3 000 €
Variable selling (distribution) (Co-product P)	1.95 €/l
Variable selling (distribution) (By-product S)	0.5 €/l

Regarding the month of March, and knowing that the company uses the absorption costing system and the valuation criterion FIFO, it is required:

- The unit MCFP of each one of the co-products, using the net realizable value method.
- The Profit and Loss Statements per Functions and Products.
- The unit MCFP of each one of the co-products, using the criterion of potential sales value, assuming that the selling price of the co-products would be 24 €/l and 10 €/l, regarding the co-product P and the co-product Q respectively.

Case for assessment 3 - Solving

a) Ascertainment of the unit MCFP of each one of the co-products, using the net realizable value method

	MU	Qt. prod.	SP	Potential sales value	Specific Costs		NRV		Joint Costs	MCFP	
					Man.	Non-man.	Value	%		Global	Unit
Co-product P											
Co-product Q											
Total											

Supporting calculations:

b) Profit and Loss Statements per Functions and per Products

Description	Co-product P	Co-product Q	By-product S	Total
1 - Sales				
2 - MCPS				
3 – Gross profit				
4 – Selling (distribution) expenses				
Variable				
Fixed				
5 – Administrative expenses				
6 – Operational profit				

Supporting calculations:

c) Ascertainment of the unit MCFP of each one of the co-products, using the criterion of the potential sales value

	MU	Qt. Prod.	SP	Potential sales value		Joint Costs	MCFP	
				Value	%		Global	Unit
Co-product P								
Co-product Q								

Supporting calculations: