

MANAGEMENT ACCOUNTING I

MANAGEMENT

School Year 2014/2015

Case 4 for Assessment

OMEGA company produces the products A and B from the conversion of the materials X and Y. Its production process can be described as follows:

- The material X is converted in the Preparation section; later it goes to the Packing section, where the finished product A and the by-product S are obtained;
- The material Y is also converted in the Preparation section. The finished product B is obtained and sold without being packed;
- Per each ton of A produced, 0.2 tons of the by-product S are obtained;
- Regarding management accounting, the need of information implied, besides the Preparation and Packing sections, the identification of a supporting Maintenance section, of a Raw Materials Warehouse (RMW) and of a Finished Products Warehouse (FPW);
- The costs with the Raw Materials Warehouse (RMW) are allocated to the quantities bought of the materials X and Y;
- The costs with the Finished Products Warehouse (FPW) are totally allocated to the product B, according to its production.

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

a) Purchases and consumptions of materials

	Material X	Material Y
Opening Stock	50 tons at 4.5 €/ton	80 tons at 3 €/ton
Purchases	1 050 tons at 5 €/ton	? tons at 2.5 €/ton
Consumptions	?	1 600 tons
Closing Stock	100 tons	20 tons

b) Costs and activities of the sections

Description	MU	Activity	Reallocations of the Maintenance section (Lh)	Direct Costs (€)
Preparation	Mh	200	40	20 000
Packing	Mh	300	50	18 250
Maintenance	Lh	?	-	2 500
RMW	ton	-	-	3 885
FPW	ton	-	10	2 500

Regarding the manufacturing sections, 60% of the activity of the Preparation section is allocated to product A and 40% to product B.

c) Production and sales

Description	Product A	Product B	By-product S
Opening Stock	100 tons at 30 €/ton	100 tons at 10 €/ton	0
Production	?	?	?
Sales	800 tons at 50 €/ton	1 400 tons at 20 €/ton	? tons at 9.5 €/ton
Closing Stock	300 tons	200 tons	50 tons

d) Production in progress

Description	Product A	Product B
Opening Stock	3 000 €	1 500 €
Closing Stock	3 700 €	920 €

e) Non-manufacturing expenses of the month

- Fixed: 5 000 €
- Variable: 5% on the sales value of A, 5 € per ton sold of the product B and 0.5 € per ton sold of the by-product S.

Considering that the company adopts **FIFO** as method of the output valuation and that it uses the **absorption costing system**, and regarding March, it is required:

1. Prepare the table of the conversion costs (Appendix 1);
2. Ascertain the manufacturing cost of the production of the products A and B (Appendix 2);
3. Prepare the profit and loss statement per functions and per product (Appendix 3)
4. Ascertain the variation value of the production to present in the Profit and Loss Statement per Natures (Appendix 4)