

Task IM-9.28: Exercise on Job Order Costing (9)

VLOTTENBURG PLC is an Accounting firm in England. The company prepares financial statements and business plans. VLOTTENBURG PLC employs 8 Accountants and 48 assistants. The Accountants earn a salary of 120,000.00 GBP/a each and the assistants 45,000.00 GBP/a each. Rent for the office is amounting to 3,000.00 GBP/m. Depreciation on computer and software is amounting to 25,000.00 GBP/m.

The company is busy on 220 days per year (vacation is already considered). Under normal capacity, VLOTTENBURG PLC's preparation of financial statements takes half of an Accountant day and 3 days work by an assistant. The preparation of a business plan is half of the workload of a preparation of a set of financial statements.

During the Accounting period 20X8, VLOTTENBURG PLC prepares 1,664 sets of financial statements and 2,960 business plans.

The Accounting fees per set of financial statements are 1,560.00 GBP/u and per business plan 700.00 GBP/u.

For administration, VLOTTENBURG PLC calculates 650,000.00 GBP.

Required: Prepare an income statement for VLOTTENBURG PLC based on the COS format and apply 2 Work-in-Process accounts for financial statements and business plans each. No direct costs apply. The application of overheads is based on workload. Consider IAS 2.13 with regard to idle costs (Leerkosten) and calculate based on normal capacity. Consider all business activities on cash, depreciation exempted.

Solution:

The normal capacity is based on 440 financial statements or 880 business plans or combinations of the products. The equivalent figure is 1 set of financial statements is 2 business plans.

The overheads are $3,456,000 / 3,520 = \mathbf{981.81 \text{ GBP}}$.

The workload under normal capacity is: 1,760 set of financial statements plus 3,520 business plans. Based on the equivalents it gives: 3,520 set of financial statements.

The applied overheads are amounting to: $1,664 \times 981.81 = \mathbf{1,633,731.84 \text{ GBP}}$ for the financial statements and $2,960 \times 981.81 / 2 = \mathbf{1,453,078.80 \text{ GBP}}$. The remaining

amount is idle costs and is seen as under-applied overheads: $3,456,000 - 3,086,810.28 = 369,189.72 \text{ GBP}$.

The revenue is amounting to: $1,664 \times 1,560 + 2,960 \times 700 = 4,667,840.00 \text{ GBP}$.

Vlottenburg PLC's STATEMENT of PROFIT & LOSS and OTHER COMPREHENSIVE INCOME for the year ended 31.12.20X8	
	[GBP]
Revenue	4,667,840.00
Other income	
	4,667,840.00
COS	(3,086,834.22)
Other expenses	(1,019,165.78)
Earnings before int. & taxes (EBIT)	561,840.00
Interest	
Earnings before taxes (EBT)	561,840.00
Income tax expenses	(168,552.00)
Deferred taxes	
Earnings after taxes (EAT)	393,288.00

Figure 1: Income statement

D		Labour Accountants-20X8 LAA		C	
(1)	960,000.00	MOH	960,000.00		
D		Labour Assistants-20X8 LAP		C	
(2)	1,125,000.00	MOH	1,125,000.00		
D		Cash/Bank C/B		C	
(5)	4,700,000.00	(1)	960,000.00		
		(2)	1,125,000.00		
		(4)	36,000.00		
		(6)	650,000.00		
		c/d	1,929,000.00		
	4,700,000.00		4,700,000.00		
b/d	1,929,000.00				
D		Depreciation-20X8		C	
(3)	300,000.00	MOH	300,000.00		
D		Acc depr ACC		C	
c/d	300,000.00	(3)	300,000.00		
		b/d	300,000.00		
D		Rent-20X8		C	
(4)	36,000.00	MOH	36,000.00		
D		Manufacturing Overheads		C	
LAA	960,000.00	WIP	1,633,744.32		
LAP	2,160,000.00	WIB	1,453,089.90		
DPR	300,000.00	I-C	369,165.78		
RNT	36,000.00				
	3,456,000.00		3,456,000.00		
D		WIP-Financial Statements WPF		C	
MOH	1,633,744.32	COS	1,633,744.32		
D		WIP-Business Plan WIB		C	
MOH	1,453,089.90	COS	1,453,089.90		
D		Cost of sales COS		C	
WIB	1,453,089.90	P&L	3,086,834.22		
WIF	1,633,744.32				
	3,086,834.22		3,086,834.22		
D		Revenue		C	
P&L	4,667,840.00	(5)	4,667,840.00		
D		Profit and Loss P&L		C	
COS	3,086,834.22	REV	4,667,840.00		
I-C	369,165.78				
ADM	650,000.00				
EBT	561,840.00				
	4,667,840.00		4,667,840.00		
				b/d	561,840.00
D		Administration-20X8		C	
(6)	650,000.00				
D		name		C	

Figure 2: Accounts