ACCT2121ABC Introductory Management Accounting
2023-2024 1st Term
Suggested Solution

Question 1

A.

Number of outputs to be produced = 4,000 + 450 – 600 = 3,850 units

B.

Budgeted purchase of direct materials in units = 400 + 3,850 × 5 – 350 = 19,300 units

Budgeted purchase of direct materials in dollars = 19,300 × 45 = $868,500

C.

Budgeted usage of direct materials in units = 3,850 × 5 = 19,250 units

Budgeted usage of direct materials in dollars = 19,250 × 45 = $866,250

D.

- To create a higher operating income: Under absorption costing, the higher the inventory level, the higher the profit that the firm could be able to manipulate as part of the fixed manufacturing overhead costs are being deducted from the ending inventory.
- To meet future demand: By maintaining ending inventory, the firm ensures it has enough products to meet customer demand without delays, especially during periods of high demand or supply chain disruptions.

Question 3

A.

Total fixed manufacturing overhead cost $= 15 \times 50{,}000 = \$750{,}000$

B.

Total manufacturing costs $= 46.25 \times 50{,}000 = \$2{,}312{,}500$

C.

Total manufacturing costs $= 24.60 \times 50{,}000 + 750{,}000 + 30 \times 1{,}000$

$= \$2{,}010{,}000$

D.

Option c), because it has a lower total manufacturing cost of \$302,500.

Question 4

A.

Unit inventoriable cost = 15 + 48 + 7 + 30 = $100

Lake Oswego Company

Budgeted income statement for the year 2021

	$
Sales (120 × 7,400)	888,000
Less: Cost of goods sold (100 × 7,400)	(740,000)
Gross margin	148,000
Less: Period cost (10 × 7,400)	(74,000)
Operating income	**74,000**

B.

Unit inventoriable cost = 15 + 48 + 7 = $70

Lake Oswego Company

Budgeted income statement for the year 2021

	$
Sales (120 × 7,400)	888,000
Less: Variable costs ((70 + 10) × 7,400)	(592,000)
Contribution margin	296,000
Less: Fixed cost (30 × (7,400 + 300 – 100))	(228,000)
Operating income	**68,000**

C.

Lake Oswego Company

Operating income reconciliation statement for the year 2021

	$
Operating income under absorption costing	74,000
Add: Fixed manufacturing overheads absorbed in beginning inventory under absorption costing (30 × 100)	3,000
Less: Fixed manufacturing overheads absorbed in ending inventory under absorption costing (30 × 300)	(9,000)
Operating income under variable costing	**68,000**

D.

Absorption costing.

When there is a higher level of closing inventory, the fixed manufacturing overheads incurred in the income statement are lowered due to the absorbed cost is subtracted from the cost of goods sold. This leads to a higher operating income.