

ACCA INTERIM ASSESSMENT

Management Accounting

December 2011

QUESTION PAPER

Time allowed **2 hours**

All 50 questions are compulsory and must be attempted

Formulae Sheet is on page 3

Do not open this paper until instructed by the supervisor

This question paper must not be removed from the examination hall

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Paper F2

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FORMULAE AND TABLES

Regression analysis

$$y = a + bx$$

$$a = \frac{\sum y}{n} - \frac{b \sum x}{n}$$

$$b = \frac{n \sum xy - \sum x \sum y}{n \sum x^2 - (\sum x)^2}$$

$$r = \frac{n \sum xy - \sum x \sum y}{\sqrt{(n \sum x^2 - (\sum x)^2)(n \sum y^2 - (\sum y)^2)}}$$

Economic order quantity

$$= \sqrt{\frac{2C_oD}{C_h}}$$

Economic batch quantity

$$= \sqrt{\frac{2C_oD}{C_h(1 - \frac{D}{R})}}$$

Present value table

Present value of 1, i.e. $(1 + r)^{-n}$

Where r = discount rate

n = number of periods until payment

Periods (n)	Discount rate (r)									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239

Periods (n)	Discount rate (r)									
	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.074	0.065

Annuity table

Present value of an annuity of 1, i.e. $\frac{1-(1+r)^{-n}}{r}$

Where r = discount rate

n = number of periods

Periods (n)	Discount rate (r)									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814
13	12.134	11.348	10.635	9.986	9.394	8.853	8.358	7.904	7.487	7.103
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606

Periods (n)	Discount rate (r)									
	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566	1.547	1.528
3	2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174	2.140	2.106
4	3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690	2.639	2.589
5	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127	3.058	2.991
6	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498	3.410	3.326
7	4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812	3.706	3.605
8	5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078	3.954	3.837
9	5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303	4.163	4.031
10	5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494	4.339	4.192
11	6.207	5.938	5.687	5.453	5.234	5.029	4.836	4.656	4.486	4.327
12	6.492	6.194	5.918	5.660	5.421	5.197	4.968	4.793	4.611	4.439
13	6.750	6.424	6.122	5.842	5.583	5.342	5.118	4.910	4.715	4.533
14	6.982	6.628	6.302	6.002	5.724	5.468	5.229	5.008	4.802	4.611
15	7.191	6.811	6.462	6.142	5.847	5.575	5.324	5.092	4.876	4.675

All 50 questions are compulsory and must be attempted

1 Which of the following are direct expenses?

- (i) The cost of special designs, drawings or layouts.
- (ii) The hire of tools or equipment for a particular job.
- (iii) Salesmen's wages.
- (iv) Rent, wages and insurance of a factory.

- A (i) and (ii)
- B (i) and (iii)
- C (i) and (iv)
- B (iii) and (iv)

(2 marks)

2 A production worker is paid a salary of \$650 per month, plus an extra \$0.05 for each unit produced during the month. The labour cost is best described as:

- A a variable cost
- B a fixed cost
- C a step cost
- D a semi-variable cost

(2 marks)

3 Which of the following would usually be classified as indirect production labour costs?

- (i) Sales director's salary.
- (ii) Supervisor's salary.
- (iii) Regular weekly overtime premium.

- A (i), (ii) and (iii)
- B (ii) and (iii)
- C (i) and (ii)
- D (iii) only

(2 marks)

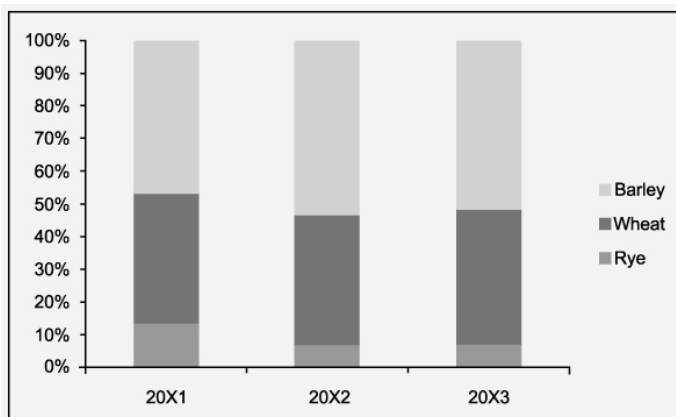
4 Which of the following are reasons sampling is used over other methods of gathering data?

- (i) The whole population may not be know
- (ii) Testing all items in a population may not be possible
- (iii) Items may be destroyed in the testing process

- A (i), (ii) and (iii)
- B (ii) and (iii)
- C (i) and (ii)
- D (iii) only

(2 marks)

5 What type of graph is this:



- A line graph
- B compound bar chart
- C percentage compound bar chart
- D percentage component bar chart

(2 marks)

6 Continuous stocktaking is:

- A the checking of every item of inventory on the last day of every accounting period
- B recording receipts, issues and resulting balances of individual items as they occur
- C counting and valuing selected items of inventory on a rotating basis, checking certain stock items on each day
- D reviewing and removing on a regular basis items which are no longer required

(2 marks)

7 The following represent the materials transactions for a company for the month of July 20X7:

	\$000s
Materials purchases	150
Issued to production	126
Materials written off	8
Returned to stores	4
Returned to suppliers	3

The material stock at 31 July 20X7 was \$26,000.

What was the opening balance on the materials inventory account at 1 July 20X7?

- A \$9,000
 - B \$11,000
 - C \$15,000
 - D \$17,000
- (2 marks)**

8 The following details are available for a company:

	<i>Budgeted</i>	<i>Actual</i>
Expenditure	\$176,400	\$250,400
Machine hours	4,000	5,000
Labour hours	3,600	5,400

If the company absorbs overheads using labour hours then, during the period, overheads were:

- A under-absorbed by \$29,900
 - B under-absorbed by \$14,200
 - C over-absorbed by \$14,200
 - D over-absorbed by \$64,990
- (2 marks)**

9 Cost accounting is mainly concerned with providing information for:

- A managers
 - B inland revenue
 - C customers
- (2 marks)**

- 10 A company makes and sells one product. The price is \$50 per unit. The cost card is:**

	\$
Direct material	22.00
Direct labour	5.50
Direct expense	0.50
Overheads	15.00
Total unit cost	43.00

60% of overheads are fixed, the remainder are variable overheads.

During September, 10,000 units were sold. The contribution for September was:

- A \$160,000
- B \$70,000
- C \$220,000
- D \$130,000

(2 marks)

- 11 Maston Ltd produces special oil in a single process. The oil is made by introducing 10,000 litres of liquid into a process at a cost of £5 per litre.**

The normal loss is 5% of input which can be sold for £1 per litre. Each process requires £4,000 of labour. The overhead is recovered at 150% of labour. What is the average cost per unit for this process?

- A \$5.950
- B \$6.000
- C \$6.2632
- D \$6.3158

(2 marks)

- 12 Rees Ltd operates a total absorption costing system. Budgeted fixed overheads for 20X1 were \$15,000 and budgeted production was 10,000 units.**

During 20X1, the actual fixed overheads amounted to \$12,470 and actual production was 9,400 units. What adjustment is required in respect of absorption of overheads?

- A Increase profit by \$1,630
- B Decrease profit by \$1,630
- C Increase profit by \$900
- D Decrease profit by \$900

(2 marks)

- 13 Which of the following statement is true when applied to fixed costs?**

- A Overhead costs are always fixed costs
- B As production levels increase, fixed cost per unit decreases
- C Fixed costs are always irrelevant in a decision-making situation
- D As the level of activity changes, fixed costs will also change

(2 marks)

- 14 A company makes two products, Reds and Blues. Total fixed overheads to absorb during May are \$60,000. Budgeted production levels for Reds for May are 10,000 units. Twice as many Blues as Reds are to be produced. Each Red takes 1 hour of labour and each Blue takes 0.25 hours. Overheads are to be absorbed on a labour hour basis.**

What is the overhead absorption rate for each finished Blue?

- A \$0.25 per unit
- B \$1 per unit
- C \$4 per unit
- D \$16 per unit

(2 marks)

- 15 Than Pele Ltd is a manufacturer. Than Pele using the FIFO method of valuation. The details of the first process in Period 2 are as follows:**

OWIP = 400 units

Costs incurred so far

Materials	\$19,880
Conversion	\$3,775

Degrees of completion

Materials	100%
Conversion	25%

Completed output = 1,700 units

CWIP = 300 units

Degree of completion:

Materials	100%
Conversion	50%

Costs incurred in Period 2:

Materials	\$100,000
Conversion	\$86,000

What is the valuation of the closing work in progress?

- A \$7,371
- B \$26,121
- C \$18,750
- D \$145,136

(2 marks)

- 16 The following data relates to two activity levels of an out-patients' department in a hospital:**

Number of consultations by patients	9,000	11,500
Overheads	\$169,750	\$189,125

The variable cost per consultation:

- A is approximately \$7.75
 B is approximately \$16.45
 C is approximately \$18.86
 D cannot be calculated without more information **(2 marks)**
- 17 When sampling a population if there are several well defined groups which method would be used?**

- A Random sampling
 B Systematic sampling
 C Stratified sampling
 D Quota sampling **(2 marks)**

- 18 In December a firm recorded a profit of \$25,000 using marginal costing principles. The opening stock in December was 20,000 units; the stock level had increased by 10% at the end of the month. If the fixed overhead absorption rate was \$0.50 per unit, the profit using absorption costing would be:**

- A \$26,000
 B \$25,000
 C \$24,000
 D \$27,000 **(2 marks)**

- 19 X plc processes a chemical. Input to a batch was as follows:**

	£
Materials (10,000 litres)	10,000
Labour and overheads	800

Normal loss is 10% of input which is sold for 36p per litre.

Actual output = 8,700 litres

Value the good output and the abnormal loss

- | | Output | Abnormal loss |
|---|----------|---------------|
| A | \$10,092 | \$108 |
| B | \$10,092 | \$348 |
| C | \$10,332 | \$468 |
| D | \$9,292 | \$1,508 |
- (2 marks)**

- 20 Sam is an assembly worker earning \$12 per hour for a basic 35-hour week. Any overtime is paid at a premium of 50%.**

In the last 4-week period Sam was paid for 150 hours, during this time 15 hours were classed as idle due to a machine breaking down. Also included in the number of hours are 4 hours' overtime spent working for an urgent job at the request of the customer.

How much should be charged to the production overhead account for the 4-week period?

- A \$216
- B \$240
- C \$288
- D \$360

(2 marks)

The following information is to be used for questions 21 and 22.

A component has a reorder quantity of 2,000 units. The demand varies between 100 units and 500 units per week. The lead time is steady at two weeks.

- 21 The reorder level to ensure that stockouts are avoided should be:**

- A 200 units
- B 2,000 units
- C 1,000 units
- D 1,500 units

(2 marks)

- 22 The average stock level if stockouts are to be avoided is:**

- A 1,400 units
- B 1,200 units
- C 1,000 units
- D 2,000 units

(2 marks)

- 23 Which of the following statements about the determination of overhead absorption rates is correct?**

- (1) Production overheads are usually recovered on the basis of floor-area used for manufacture.
- (2) Business rates should be included in overhead costs to be apportioned to individual units.
- (3) Direct labour should not be included as an overhead in the overhead allocation and apportionment process.

- A (1) and (2) only
- B (1) and (3) only
- C (2) and (3) only
- D All three statements are correct

(2 marks)

- 24 A company has four departments: Assembly, Finishing, Maintenance and Administration.**

Budgeted data for each department is shown below:

	<i>Assembly</i>	<i>Finishing</i>	<i>Maintenance</i>	<i>Administration</i>
Allocated overheads	\$90,000	\$100,000	\$10,000	\$10,000
Direct labour hours	5,000	6,000	Nil	Nil
Machine hours	10,000	3,000	2,000	Nil
% of time spent maintaining machinery	60	40	Nil	Nil
Number of staff	60	120	10	10

The most appropriate production overhead absorption rate to use in the Assembly department would be:

- A \$9.60 per machine hour
 B \$9.90 per machine hour
 C \$17.33 per labour hour
 D \$18.33 per labour hour **(2 marks)**
- 25 The annual demand for a stock item is 5,000 units. The cost of placing an order is \$160 and the cost of holding an item in stock for one year is \$30. What is the Economic Order Quantity, to the nearest unit?**

- A 31 units
 B 115 units
 C 231 units
 D 26,667 units **(2 marks)**

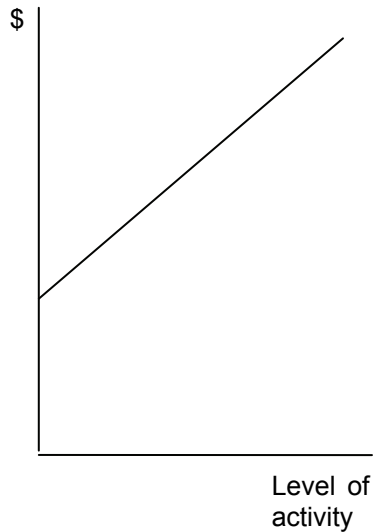
- 26 You are putting together a price quote for a potential customer. To do so, you need to calculate the labour costs of the workers involved in the job. You have estimated that the job will take 210 labour hours of work. However, 20% of the total labour hours worked is always idle time.**

If the wage rate is \$7.50 per hour, what will be the total labour cost of the job?

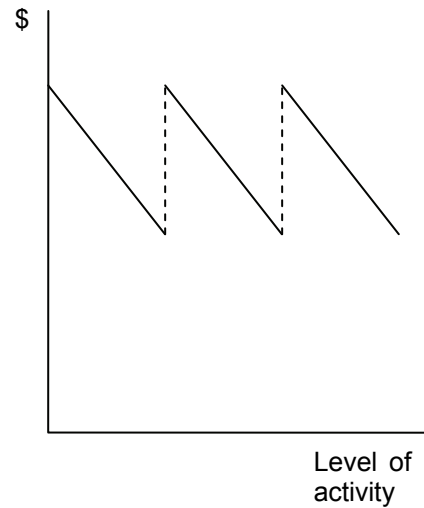
- A \$1,575.00
 B \$1,890.00
 C \$1,968.75
 D \$2,000.50 **(2 marks)**
- 27 Which of the following activities is an example of operational planning?**
- A A publishing company decides to launch a UK magazine in Australia within the next two years
 B A magazine editor allocates responsibility for upcoming features to individual writers
 C The editorial team plans the launch of a new format for the magazine **(2 mark)**

28 A company has a dedicated line for product. Variable costs are constant, but for each increase in activity of 10,000 units it is necessary to employ an additional supervisor. The total cost of production is illustrated in which of the following graphs?

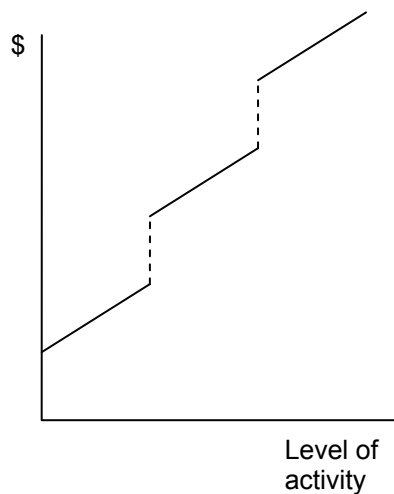
A



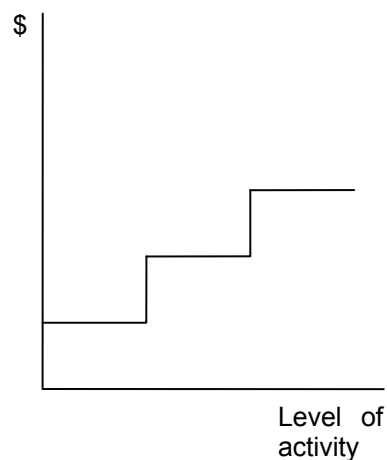
B



C



D



(2 marks)

29 The performance of a manager of a division of a manufacturing company is measured based on the income of the division and the costs of production. The division is:

- A an investment centre
- B a cost centre
- C a profit centre
- D a revenue centre

(2 marks)

- 30 Which of the following descriptions best describes random sampling?**
- A The first item in the sample is chosen at random, the *n*th item, and the second item is then $100 + nth$, the third item is $200 + nth$ etc
 - B A sample taken in such a way that every member of the population has an equal chance of being selected
 - C A sample is proportional to the size of the group is chosen
 - D A large sample is split into areas or type and then items are chosen (2 marks)
- 31 The cost of a product is given by the equation $y = 7,250 + 37x$. What is the total cost for 250 units?**
- A \$15,275
 - B \$16,500
 - C \$17,500
 - D \$18,275 (2 marks)
- 32 Which of the following is an example of a composite cost unit?**
- A car
 - B bus journey
 - C passenger miles
 - D administration (2 marks)
- 33 At the beginning of week 7 there are 500 units of LM. 200 of these had been bought for \$1,250 in total in week 6 and 300 had been bought for \$6.50 each in week 5. On day 3 of week 7 another 150 LM were bought, this time for \$6.60 each. There was an issue of LM on day 4 of 90 units. The business uses FIFO what was the value of the issue and the closing inventory for week 7?**
- | | Issue | Closing Inventory |
|---|-------|-------------------|
| A | \$585 | \$3,605 |
| B | \$594 | \$3,596 |
| C | \$562 | \$3,628 |
| D | \$580 | \$3,610 |
- (2 marks)
- 34 Which of the following would be sent from a production department to purchasing?**
- A A goods received note
 - B A purchase requisition
 - C A delivery note
 - D A materials requisition (2 marks)

- 35 Ganger has 500 units of WS in stock at the start of the month at a total valuation of \$2,905. A further 100 WS were bought for \$6.35 each. There was an issue made of WS of 90 units after this last delivery was received. The business uses AVCO what was the value of the issue and the closing inventory?**

	<i>Issue</i>	<i>Closing Inventory</i>	
A	\$576	\$2,964	
B	\$571	\$2,969	
C	\$531	\$3,009	
D	\$580	\$2,960	(2 marks)

- 36 The double entry for direct production materials returned to stores would be:**

A	Dr Finished goods control account	Cr Material inventory account	
B	Dr Material inventory account	Cr Work-in-progress control a/c	
C	Dr Production overhead control a/c	Cr Work-in-progress control a/c	
D	Dr Material inventory account	Cr Production overhead control a/c	(2 marks)

- 37 A company uses components at the rate of 500 units per month, which are bought in at a cost of \$1.20 each from the supplier. It costs \$20 each time to place an order, regardless of the quantity ordered. The total holding cost is 20 % per annum of the value of inventory held.**

What is the total annual cost?

- | | | |
|---|---------|------------------|
| A | \$120 | |
| B | \$240 | |
| C | \$7,320 | |
| D | \$7,440 | (2 marks) |

- 38 The contribution per unit will increase as the number of units sold increases.**

This statement is:

- | | | |
|---|-------|------------------|
| A | true | |
| B | false | (2 marks) |

- 39 Smith Inc operates a total absorption costing system. Budgeted fixed overheads for a period were \$375,000 and budgeted production was 15,000 units.**

During the period, the actual fixed overheads amounted to \$418,000 and actual production was 17,000 units. Overheads have been:

- | | | |
|---|----------------------------|------------------|
| A | under-absorbed by \$43,000 | |
| B | under-absorbed by \$7,000 | |
| C | over-absorbed by \$7,000 | |
| D | over-absorbed by \$43,000 | (2 marks) |

- 40 Overheads are apportioned between different production departments on the basis of numbers of employees working in the department.**

This statement is:

- A true
B false

(2 marks)

- 41 A company has four departments: Assembly, Finishing, Maintenance and Sales.**

Budgeted data for each department is shown below:

	<i>Assembly</i>	<i>Finishing</i>	<i>Maintenance</i>	<i>Sales</i>
Allocated overheads	\$70,000	\$95,000	\$10,000	\$8,000
Direct labour hours	4,500	7,000	Nil	Nil
Machine hours	11,000	2,500	2,000	Nil
% of time spent maintaining machinery	70	30	Nil	Nil
Number of staff	45	90	10	10

The most appropriate production overhead absorption rate to use in the Assembly department would be:

- A \$7.00 per machine hour
B \$7.51 per machine hour
C \$17.11 per labour hour
D \$18.35 per labour hour

(2 marks)

- 42 Which of the following is not a correct part of the process of accounting for manufacturing overheads?**

- A Selling overheads are debited to the selling overheads account
B Absorbed production overheads are debited to the production overheads account
C Any under-absorbed overheads are transferred to the income statement at the end of the accounting period
D Material costs are debited in the work-in-progress account

(2 marks)

- 43 Allocation is the method used for sharing overheads between departments.**

This statement is:

- A true
B false

(2 marks)

- 44 Valuations of inventory levels under absorption costing will be higher than with marginal costing.**

This statement is:

- A true
B false

(2 marks)

45 The calculation for target cost is:

- A Target Profit – Target selling price
- B Target selling price × units to be sold
- C Target selling price – Target profit
- D Target profit + target selling price (2 marks)

46 Which of the following are the basic principles of total quality management

- (1) Get it right, first time
- (2) Continuous improvement
- (3) Prevention costs
- (4) Customer focus
- A (1) only
- B (1), (2) and (3)
- C (1), (3) and (4)
- D (1), (2) and (4) (2 marks)

47 Which of the following are included in the costs of holding inventory includes:

- (1) interest on capital held in tied up inventory
- (2) the costs of ordering replacement stocks
- (3) the cost of insurance.
- A (1) and (2) only
- B (2) and (3) only
- C (1) and (3) only (2 marks)

The following information applies to questions 48 and 49.

A manufacturing company has two production departments, Assembly and Finishing, and two service departments, quality control and maintenance. After primary apportionment the overheads for the factory are as follows:

	<i>Assembly</i>	<i>Finishing</i>	<i>Quality control</i>	<i>Maintenance</i>	<i>Total</i>
Overheads	\$550,000	\$240,000	\$150,000	\$125,000	\$1,065,000
Work done by QC	55%	30%		15%	100%
Work done by maintenance	35%	45%	20%		100%

- 48 The total overhead to be apportioned to the finishing department is:**
- A \$362,552
 - B \$366,225
 - C \$366,804
 - D \$702,448
- (2 marks)**
- 49 The total overhead to be apportioned to the assembly department is:**
- A \$362,552
 - B \$696,778
 - C \$698,775
 - D \$702,448
- (2 marks)**
- 50 In quality related costs, how would quality engineering and warranty claims be classified?**
- | | Quality engineering | Warranty claims |
|---|---------------------|-----------------------|
| A | Prevention cost | Internal failure cost |
| B | Prevention cost | External failure cost |
| C | Appraisal cost | Internal failure cost |
| D | Appraisal cost | External failure cost |
- (2 marks)**

