

1 Bengal Star Trousers Limited manufactures trousers at its factory.

The following **budgeted** information was available for September 2017.

Budgeted output 20 000 pairs of trousers.

Standard cost for **one pair** of trousers:

- 15 minutes cutting department labour and 30 minutes sewing department labour
- All labour is paid at a rate of £7.20 per hour
- 2.5 square metres of material at £3.46 per square metre.

Fixed overheads £17 000

The **actual** figures for the four weeks of September 2017 were:

Actual output 20 000 pairs of trousers, produced at a rate of 5 000 pairs per week.

The cutting department labour hours were as budgeted.

Due to problems with the electricity supply, the sewing department labour required an extra 850 hours to complete the output.

Halfway through the month, cutting department labour was awarded a 5% pay rise.

The last week's production of 5 000 pairs of trousers used material costing £3.56 per square metre.

Quantity of material used was as budgeted.

Fixed overheads £15 730

### Required

(a) Calculate, for the month of September 2017, the:

(i) standard cost of **one pair** of trousers

(4)

(ii) actual cost of **20 000 pairs** of trousers

(10)

(iii) actual cost of **one pair** of trousers.

(3)

(b) Calculate, for the month of September 2017 the:

(i) labour rate variance (5)

(ii) labour efficiency variance (4)

(iii) total labour variance (3)

(iv) material price variance. (5)

(c) Complete, for the month of September 2017, in the Question Paper, the reconciliation statement of the total budgeted cost of output to the total actual cost of output.

You must show clearly whether the variance is favourable or adverse.

(6)

(d) State **three** possible reasons why the fixed overheads for September were lower than budgeted.

(3)

The company operates a system of a 50% mark-up on cost to determine the selling price. The cost of producing each item has risen in September.

(e) Evaluate whether the company should continue with a mark-up on cost of 50%.

(12)

**(Total for Question 1 = 55 marks)**