**PTC LTD -Tutorial Home Work- Week 9**

PTC Ltd is an owner managed bakery business that has seen a large increase in sales over recent months. The owner/manager, James Weelan, feels that the business needs a more formal management accounting system and has approached you to ask for advice on some specific areas.

To date, James has used a local book-keeper and a firm of accountants for all his financial advice but he is now considering employing a part time management accountant. Before he can do this, he will need to find out a little more of what can be expected of a management accountant.

PTC Ltd operates from a large industrial unit on a local business park. There is a bakery at the back of the unit where all the products are made and a small retail shop at the front of the unit. Sales are made through the shop to passing customers and also directly to supermarkets in the local area. PTC will also accept catering orders for weddings, parties and other similar functions.

The business started making bread products but has expanded to also make cakes and savoury products such as pies and pasties.

At a recent networking event, James heard costs described as variable, semi-variable, stepped, fixed, prime, marginal and absorption. He had no idea what any of these meant and does not know if they are relevant to his business. He was also asked if he accounted for his stock on a FIFO, LIFO, or AVCO basis but had to say that he just records invoices from suppliers.

To date, James has taken a broad approach to his sales and costs. As long as the sales have covered all costs and the business has made a profit each year, he has been happy. However he now feels that he should start looking in more detail at the different product lines to establish which products are more successful than others. He has gathered the following information.

The following are budgeted costs for the next period:

Indirect materials $70,000

Rent $45,000

Electricity $25,000

Machine repairs $18,000

HR costs $5,000

The following information is available:

Bakery Shop Packaging Administration

Area (sq. metres) 300 50 100 50

KW hours consumed 1,500 800 400 300

Machine value $64,000 $8,000 $20,000 $8,000

Number staff 10 2 2 1

Direct labour hours 19,200 4,000

Indirect mats. Budget ($) 35,000 15,000 10,000 10,000

James estimates that the administration function spends 65% of its time on bakery issues, 20% on shop issues and the remainder on packaging.

The packaging overheads are to be apportioned 75:25 Bakery:Shop.

Illustrate the following areas for James:

1. An illustration of the Overhead Absorption Rate (OAR) for each of the bakery and the shop using a labour hour basis.

If a loaf of bread takes 5 minutes of labour time in the bakery and 3 minutes of labour time in the shop, show how Jack would calculate the departmental overhead charge per unit for a loaf of bread.

1. A discussion and recommendation of the different methods that can be used to account for raw materials receipts and issues. An illustration of the different methods would be useful.