

Student 4: High Achieved
NZQA Intended for teacher use only

The student has accurately calculated quotes for Legal Eagles and the competitor. Their figures are as for Student 1. ①

Legal Eagles Overhead Control Account					
Date		Dr	Cr	Bal	Dr/Cr
xxx	Accounting	8,000		8,000	Dr
xxx	Rental	34,000		42,000	Dr
xxx	Support wages	20,000		62,000	Dr
xxx	Cleaning	4,000		66,000	Dr
xxx	Other expenses	4,000		70,000	Dr
xxx	Overhead applied		70,000	-	

②

Legal Eagles is a law firm that has corporate clients. They and other law firms like Levin Law work on cases and charge the clients for this work.

In order to work out the cost of each job (case), Legal Eagles needs to know the number of hours that lawyers work on the case (both partners and associate lawyers), the amount of telephone, photocopying and travel used on the case and also the amount of overheads. The direct costs (lawyer hours, telephone, photocopying and travel) are known and recorded every time they are used on the case. ③

At the end of the job these costs are totalled and the mark-up is incorporated to ensure that the correct quoted amount is presented to the client. This will help Legal Eagles to stay in business long-term. ⑤

The overhead costs are indirect costs and are not known. Therefore an overhead rate is used to allocate the total overhead for the year to each job. To try and apportion the overhead correctly, the overhead rate is based on the number of partners' hours for the case. Legal cases are very labour intensive jobs so partners' hours are the best option for allocating the overhead. ④

The overhead rate is based on estimated figures (both costs and hours) so there is often a difference between the overhead costs for the year and the overhead that has been applied to the jobs. Obviously it is important that this figure is as small as possible.

Some sections of the student's narrative response have been omitted from this exemplar.