

Student 2: High Merit

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

①

An overhead account for Legal Eagles has been attempted.

Legal Eagles General Journal			
xxx	Work in progress – copyright case	59,500	
	Labour		59,500
	(to record partners' hours)		
xxx	Work in progress – copyright case	54,000	
	Labour		54,000
	(to record associate lawyer hours)		
xxx	Work in progress – copyright case	1,500	
	Travel expenses		1,500
	(to record travel for copyright case)		
xxx	Work in progress – copyright case	2,300	
	Photocopying and printing		2,300
	(to record copying and printing costs for copyright case)		
xxx	Work in progress – copyright case	2,700	
	Telephone and internet		2,700
	(to record communication expenses for copyright case)		
xxx	Work in progress – copyright case	850	
	Overhead applied		850

③

Report 2

Legal Eagles operates a job cost subsystem to calculate the total costs of their jobs (legal cases) that they work on. Once they have the total cost determined, they calculate the price to charge the client based on a mark-up of 120%.

A computer software supplier has approached Legal Eagles to work for them on a case of a breach of copyright laws. As Legal Eagles' cost consultant I have calculated a total price to be \$305,750 including GST.

Levin Law's quote was less than Legal Eagles' quote so they will probably get the client's job, but whether Levin Law will be able to complete the job is questionable as they are not assured of covering all of their costs so their ability to sustain their business could be in question. Legal Eagles accurately calculates a total cost for the law case by recording all direct and indirect costs using an accurate job cost subsystem. In contrast, Levin Law has quoted for lawyer hours and overheads but with direct costs of the job (like photocopying and travel) included within the overheads. They might find at the end of the year that they haven't charged enough overhead to clients to cover all the actual overheads and non-staff direct costs.

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It is very important to accurately determine the total cost of all jobs in order for costs to be covered through client billing and also in order for the business to know their costs accurately so that they can be better controlled. This will contribute to the long-term viability of the business.

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Legal Eagles uses partners' hours as their overhead rate because the amount of time the partners work on a case seems to best determine the amount of overhead costs the case uses. This is because a large proportion of overhead costs are related to running the offices and it is the partners who mainly use the space in the offices of Legal Eagles so the more hours that the partners are working on cases, the higher the overhead costs.

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