

Student 5: Low Achieved
NZQA Intended for teacher use only

Direct Costs

Partners' hours:	850 x \$70	59,500
Associate lawyer hours:	1350 x \$40	54,000
Travel		1,500
Photocopying		2,300
Telephone		2,700

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Indirect Costs

Overhead rate	$\$70,000/70,000 = \1 per partner hour	
Overhead costs	850 x \$1	850
	Total costs	\$120,850

Legal Eagles Overhead Control Account					
Date		Dr	Cr	Bal	Dr/Cr
	Accounting	8,500		8,500	Dr
	Rental	34,000		42,500	Dr
	Other support wages	19,000		61,500	Dr
	Cleaning	3,500		65,000	Dr
	Other	3,500		67,500	Dr
	OH Applied		70,000	2,500	Cr

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A job cost subsystem involves calculating the cost for individual jobs that are all different. In this case the business is Legal Eagles who are an Auckland based law firm. Their jobs are legal cases for corporate clients.

A job cost subsystem calculates all the costs for each job by recording them on a job cost card. Costs are direct and indirect.

Legal Eagles uses partners' hours for their overheads because cases are often won and lost on the amount of preparation time that the lawyer puts in. The case used 850 partner hours so \$850 of overheads is applied to the job. Partners' hours is an appropriate base because the amount of time that a case is worked on is determined by the amount of partners' hours as partners are the most qualified people working on the case.

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It is important that both direct and indirect costs are calculated and then a mark-up is added to get the price that is charged the corporate client.

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Legal Eagles needs to both cover their actual costs related to the case as well as the other costs incurred in running the law firm in order to make a profit and also ensure that costs are controlled so that they are not charging too much and missing out on jobs.

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