Absorption costing: An example on production overhead analysis to calculate absorption rates. [all figures in £s]

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Production  Overheads | Basis of apportionment | Total | Cutting | Assembly | Canteen | Maintenance |
| Assembly dept repairs | --- | 101,250 |  | 101,250 |  |  |
| Cutting dept repairs | --- | 36,000 | 36,000 |  |  |  |
| Rent [see Note 1 | Floor area | 1,470,000 | 294,000 | 1,029,000 | 49,000 | 98,000 |
| Staff costs | Number of employees | 1,200,000 | 250,000 | 750,000 | 50,000 | 150,000 |
| Machine depreciation | NBV of machinery | 1,380,000 | 345,000 | 920,000 | 23,000 | 92,000 |
| Sub-totals |  | 4,187,250 | 925,000 | 2,800,250 | 122,000 | 340,000 |
| Reapportionment of service cost centre costs |  |  |  |  |  |  |
| Maintenance | 50/40/10 |  | 170,000 | 136,000 | 34,000 | (340,000) |
| Canteen | 25/75 |  | 39,000 | 117,000 | (156,000) |  |
| Total POH |  | 4,187,250 | 1,134,000 | 3,053250 | --- | ---- |
| Basis of absorption |  |  | Machine hours  47,250 | Direct labour hours  44,250 |  |  |
| Absorption rate |  |  | £1,134,000 / 47,250 | £3,053250 /44,250 |  |  |
|  |  |  | £24/MH | £69/DLH |  |  |

Note: Rent per sq. m = £1,470,000 / 90,000

* Cutting dept: [£1,470,000 / 90,000] x 18,000
* Assembly dept: [£1,470,000 / 90,000] x 63,000