**PRODUCT COSTING OF SERVICES**

1. A Machine shop is in the process of fixing its machining tariff to its various customers. Following is the cost data in respect of a Special Purpose Machine (SPM) from which calculate the Machine Hour Rate (MHR)

Cost of the Machine Rs. 20 lakhs

Bank loan (interest rate – 9%) Rs. 15 lakhs

Power charges / hour Rs. 50

Maintenance Rs. 25000 per year

Operators wages Rs. 60 per hour

Helpers wages Rs. 2000 per month

Consumables Rs. 10000 per year

Rent Rs. 30000 per year

Supervision Rs. 100000 per year

Tooling cost Rs. 75 per hour

Share of admn. Expenses Rs. 60000 per year

Depreciation @ 10 % p.a

Estimated working hours (p.a) 8000

1. A manufacturing company has proposed to purchase a machine and furnish the following relevant information : -

Cost of the machine - Rs. 3,50,000

Life of the machine - 5 years

Scrap value by the end of life - Rs. 50,000

Operators wages - Rs. 8,000 per month + Rs. 10 per hour

of operation

Term loan obtained Rs. 2,00,000 ; interest @ 10% per year

Power cost - Rs. 30 per hour

Consumables & tools - Rs. 10,000 per month

Admn expenses - Rs. 5,000 per month

Factory Rent - Rs. 12,000 p.m (for 4 machines)

Helpers salary - Rs. 6,000 p.m

Estimated working hours per month - 300 hours

Calculate cost of running the machine per hour