

- 3 Wigmore Ltd uses one factory overhead recovery rate which is a percentage of total direct labour costs. The rate is calculated from the following budgeted data.

Department	Factory overheads \$	Direct labour costs \$	Direct labour hours	Direct machine hours
Production	150 000	500 000	120 000	7 000
Assembly	450 000	1 000 000	225 000	10 000
Packing	360 000	900 000	200 000	–

The cost sheet for job 787 shows the following information.

Department	Direct labour costs \$	Direct labour hours	Direct machine hours	Direct material costs \$
Production	2 400	400	80	180
Assembly	1 100	700	90	150
Packing	1 000	650	–	170

General administration expenses of 20% are added to the total factory cost. The selling price to the customer is based on a 25% net profit margin.

## REQUIRED

- (a) Calculate the current factory overhead rate for Wigmore Ltd.

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- [illegible]

- (i) Percentage of direct labour cost

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**(ii)** Direct labour hour rate

Production

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Assembly

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Packing

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**(d)** Using the direct labour hour rates calculated in **(c) (ii)**, prepare a detailed cost statement to calculate the new selling price for job 787.

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- (e) (i) Discuss the problems associated with using predetermined overhead absorption rates.

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- (ii) State the effect on profits if the factory **does not** operate at full capacity.

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