

- 4 D Limited manufactures a single product. The company has two production departments: machining and finishing. There are two service departments: stores and maintenance.

The accountant has allocated and apportioned total factory overheads to the four departments.

### REQUIRED

- (a) Explain the difference between allocation and apportionment of overheads.

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### Additional information

The directors of D Limited have provided the following information:

	Machining	Finishing	Stores	Maintenance
Issues from stores	60%	30%	-	10%
Maintenance	75%	25%	-	—
Budgeted direct labour hours	22 000	52 000	-	—
Budgeted machine hours	84 000	12 000	-	—

### REQUIRED

- (b) Re-apportion the service departments' costs to the production departments.

	Machining \$	Finishing \$	Stores \$	Maintenance \$
Total apportioned overheads	177 255	101 150	26 585	33 010
Re-apportionment of stores				
Subtotal				
Re-apportionment of maintenance				
Total				

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- (c) Calculate a suitable overhead absorption rate to **two** decimal places for **each** production department.

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- (d) Explain why a business calculates separate overhead absorption rates for each production department rather than a single rate for the whole factory.

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### Additional information

The company accountant has been asked to provide a quotation for a customer who requires 200 units of the company's product. The directors wish to quote a selling price which will achieve a 25% gross margin.

Budgeted cost per unit of product

Direct material	\$16.00
Direct labour hours	
Machining	10 minutes at \$9.60 per hour
Finishing	45 minutes at \$10.80 per hour
Machine hours	
Machining	90 minutes
Finishing	20 minutes

### REQUIRED

(e) Prepare a statement to show the quoted selling price of **one unit** of the product.

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(f) Calculate the total amount the company would receive if the customer accepted the quoted price and then took a cash discount of 7½%.

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### Additional information

Although the business is successful and expanding, the directors feel that the four departments do not always appear to be working well together. The directors are planning to introduce a system of budgetary control which would initially reduce annual profits by 5%.

## REQUIRED

**(g)** Advise the directors whether or not they should proceed with their plans. Justify your answer.

[7]