

- 4 Rajesh is a manufacturer with a trading year end of 31 December. He currently uses absorption costing. The business operates two production cost centres and two service cost centres. Details of these cost centres and the budgeted overhead costs for the whole business for the year ended 31 December 2015 are as follows:

Overhead	\$	Basis of apportionment
Depreciation	8 750	Non-current assets at cost
Machinery maintenance	27 000	Machine hours
Power	15 370	Kilowatt hours
Rent of premises	63 510	Floor area

The following information is also available:

	Production cost centres		Service cost centres	
	Machining	Assembly	Stores	Canteen
Floor area (square metres)	750	500	150	50
Kilowatt hours	3 750	2 500	750	250
Non-current asset at cost (\$)	90 000	30 000	12 000	8 000
Stores requisitions	150	75	-	-
Staff	20	30	3	-
Direct labour hours	2 300	13 900	-	-
Machine hours	14 100	2 650	-	-

REQUIRED

- (a) Apportion the overhead costs to the four cost centres and re-apportion the service cost centres costs to production cost centres using a suitable basis.

	Total	Production cost centres		Service cost centres	
		Machining	Assembly	Stores	Canteen
	\$	\$	\$	\$	\$
Depreciation					
Machinery maintenance					
Power					
Rent of premises					
Re-apportionment of canteen					
Re-apportionment of stores					
Total overhead cost					

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The following budgeted information is also available:

REQUIRED

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Additional information

The actual results for the year were as follows:

	Machining	Assembly
Factory overheads	\$76 750	\$45 675
Direct labour hours	2 560	12 650
Machine hours	16 210	2 490

REQUIRED

- (d) Calculate the over absorption or under absorption of overheads for each production cost centre.

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- (e) State what is meant by allocation.

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- (f) State what is meant by overhead costs.

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Rajesh has been advised to change to a marginal costing system.

REQUIRED

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