

- 3 Chester Limited manufactures clothing. The work takes place in three production departments – cutting, sewing and finishing. In addition, the business has two service departments – stores and maintenance.

The budgeted overheads for the year ending 31 March 2014 were as follows:

	\$
Indirect wages	185 400
Rent and rates	38 500
Power	32 600
Light and heat	18 800
Machine depreciation	73 700
Buildings insurance	18 200

The following information is available.

	Cutting	Sewing	Finishing	Stores	Maintenance
Number of indirect employees	3	5	3	4	5
Floor space (square metres)	5 000	6 000	3 000	3 000	4 000
Net book value of machinery (\$)	86 000	64 000	12 000	-	5 000
Machine hours	40 000	50 000	4 000	-	-
Direct labour hours	84 000	22 000	56 000	-	-
Raw material issues	75%	17.5%	2.5%	-	5%

Chester Limited uses a single overhead rate to absorb all overheads on a direct labour hour basis.

REQUIRED

- (a) State **one** advantage and **one** disadvantage to Chester Limited of using a single overhead absorption rate.

Advantage

.....

.....

Disadvantage

.....

.....

..... [4]

- (b) Calculate, correct to **two** decimal places, the overhead absorption rate for the year ending 31 March 2014.

.....

..... [1]

Additional information

The directors of Chester Limited are considering changing the basis for recovering overheads to calculate a separate overhead absorption rate for each production department.

REQUIRED

- (c) Apportion the costs to the five departments and re-apportion the service departments' costs to production departments using a suitable basis.

	Total \$	Cutting \$	Sewing \$	Finishing \$	Stores \$	Maintenance \$
Indirect wages						
Rent and rates						
Power						
Light and heat						
Machine depreciation						
Buildings insurance						
Reapportion stores						
Reapportion maintenance						

- (d) Calculate, correct to **two** decimal places, appropriate overhead absorption rates for **each** production department.

.....

.....

.....

.....

.....

.....

..... [6]

Additional information

The actual results for the year were as follows:

	Cutting	Sewing	Finishing
Factory overheads	\$168 180	\$146 320	\$51 870
Direct labour hours	85 200	20 950	58 140
Direct machine hours	42 330	52 450	4 280

REQUIRED

- (e) Calculate the under- or over-absorption of overheads for **each** production department.

	Cutting \$	Sewing \$	Finishing \$

[6]

(f) Manufacturing businesses classify costs by function. State **three** functional groups of costs.

- 1
- 2
- 3 [3]