

- 4 Cuthbert runs a manufacturing business which has two production departments and one service department. The business allocates and apports overhead expenditure between production and service departments.

REQUIRED

- (a) Explain **one** difference between overhead allocation and overhead apportionment.

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[2]

- (b) State what is meant by:

- (i) a production department

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[1]

- (ii) a service department

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[1]

Additional information

The following budgeted information has been provided.

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Rent	18 000
Heating and lighting	12 500
Depreciation	11 200
Employee overheads	8 300
	<u>50 000</u>

	Production department 1	Production department 2	Service department
Area (Square metres)	4 500	3 000	1 500
Electricity used (Kilowatt hours)	60 000	30 000	10 000
Non-current assets at net book value (\$)	75 000	45 000	
Number of employees	45	25	13
Direct labour hours	4 000	1 200	
Machine hours	1 500	2 000	

Service department costs are re-apportioned on the basis of electricity used.

REQUIRED

- (c) Complete the table to apportion the budgeted overheads to each department. Re-apportion the service department costs to the two production departments.

Overhead	Production department 1 \$	Production department 2 \$	Service department \$	Total \$
Rent				
Heating and lighting				
Depreciation				
Employee overheads				
Service department re-apportionment				

- (d) Calculate the overhead absorption rate for both production departments using an appropriate basis. Give your answers to **two** decimal places.

Production department 1

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Production department 2

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- (e) Explain the reason for the re-apportionment of the service department costs.

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- (f) State **three** limitations of using absorption costing.

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[3]

Additional information

A customer made a request for a special order.

The manufacture of this order would require direct materials of \$2 800 and direct labour of \$3 200.

	Production department 1	Production department 2
Direct labour hours	80	20
Machine hours	30	100

Cuthbert wishes to achieve a profit margin of 35% on this order.

REQUIRED

(g) Calculate the price to quote for this special order.

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Additional information

The customer offered \$9 000 for this order.

REQUIRED

(h) Advise Cuthbert whether or not he should accept the order. Justify your answer.

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