# Lecture 4 Questions

1. Define the terms:

Prime cost Product cost.

1. What is the difference between a product cost and a period cost?
2. A toy manufacturer incurs the following costs:

Plastic

Wood

Sundry materials used in production

Wages of factory staff

Wages of office staff

Depreciation of machinery

Stationary expenses

Electricity bill for factory

Electricity bill for office

Costs of delivery to customers

**REQUIRED**

**Classify the expenses as direct labour, direct materials, direct expenses, indirect production overheads or other indirect costs.**

1. Harry has started a business producing T shirts. He has asked you for help in calculating the cost of a T shirt that will appear in the inventory valuation.

During the first month of operation Harry spent £45,000 on fabric and £5,000 on dyes etc.

Harry has 5 employees working in the factory and their wages and salaries for the first month were £17,500. In addition, Harry employed an office manager for preparing invoices, accounts and chasing debts from customers. He paid this employee £1,800 per month.

In the first month of business other indirect factory costs were £3,500 and indirect office costs amounted to £11,000 and he produced 15,000 T shirts.

**REQUIRED**

1. **For Harry’s first month calculate the prime cost, the production cost and the total cost of the business.**
2. **Calculate the product cost of one T shirt.**
3. A company, Bifocal Ltd manufactures both distance glasses and sunglasses and has incurred the following production overheads during December:

£

Supervisors’ salaries 12,000 Machine repair and maintenance 14,000 Factory rent and rates 15,000

|  |  |  |  |
| --- | --- | --- | --- |
|  | Distance glasses | Sunglasses | Total |
| Floor area sq metres | 7,500 | 2,500 | 10,000 |
| Machinery value £ | 120,000 | 80,000 | 200,000 |
| Number of employees | 80 | 40 | 120 |

**REQUIRED**

**Calculate the overheads to be included in each department using the most appropriate method of apportionment.**

1. A company has two production departments manufacturing two types of sleeping bags, a leisure sleeping bag for occasional use and a special thermal sleeping bag for winter camping. The company also has a canteen which serves both production centres.

Direct labour is paid £8 per hour and the leisure sleeping bag requires 3 hours of labour time whereas the thermal sleeping bag requires 5 hours of labour.

The basic direct material costs £5 per metre and both bags require 4 metres of material. In addition, the thermal sleeping bag requires additional material at £12 per metre with 1.5metres required for each bag produced.

The indirect costs of production are factory rent and rates which were £35,000 and electricity costs amounting to £80,000 which was required to operate the machinery.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Production Department 1  (Leisure Sleeping Bags) | Production Department 2  (Thermal Sleeping Bags) | Service Centre (Canteen) | TOTAL |
| Area (square metres) | 3,000 | 3,500 | 500 | 7,000 |
| Value of plant (£000) | 120 | 200 | 0 | 320 |
| No. of employees | 25 | 30 | 3 | 38 |

During the period under review 1,800 Leisure sleeping bags will be produced and 2,200 Thermal sleeping bags will be produced

**REQUIRED Calculate the product cost for both leisure sleeping bags and thermal sleeping bags.**

1. A business manufactures fire alarms. The fire alarm must go through two production departments.

Department 1 is labour intensive with the accountant estimating that a total of 20,000 labour hours will be required.

Department 2 is where the assembly takes place with 10,000 alarms expected to be assembled in the period.

The direct costs for each alarm are £40 and the production overheads in department 1 are £120,000 and £45,000 in department 2

**REQUIRED**

**Calculate the product cost for alarms.**