Question 8 - solution

(a) **Overhead analysis** 29

Overhead		Basis	Total	Processing	Assembly	Finishing
Ind. Material		Actual	250,000	120,000 ❶	70,000 ❶	60,000 ❶
Ind. labour		Actual	400,000	260,000 ❶	80,000 ❶	60,000 ❶
Light & heat	❶	Volume	90,000	45,000 ❶	30,000 ❶	15,000 ❶
Rent & Rates	❶	Floor space	54,000	36,000 ❶	13,500 ❶	4,500 ❶
Mach. Maint.	❶	Machine hours	24,000	12,000 ❶	9,600 ❶	2,400 ❶
Depreciation	❶	Plant valuation	60,000	36,000 ❶	14,400 ❶	9,600 ❶
Canteen	❶	Employees	45,000	22,500 ❶	16,875 ❶	5,625 ❶
			923,000	**531,500** ❶	**234,375** ❶	**157,125** ❶

(b) 21

Overhead recovery (absorption) per	**Machine hours**	**Direct Labour hours**	
	Processing (Machine hours)	**Assembly** (Labour hours)	**Finishing** (Labour hours)
Budgeted Overheads	531,500	234,375	157,125
Budgeted Hours	25,000	45,000	15,000
Overhead absorption rate per machine hour	**€ 21.26**		
Overhead absorption rate per labour hour	**€8.86** ❼	**€ 5.21** ❼	**€10.48** ❼

(c) 22

Selling price of Job No.316

		€
Materials	8000 + 1,800	9,800.00 ❷
Labour	1,000 + 3,200 + 600	4,800.00 ❸
Overheads:		
Processing	40 x €21.26	850.40 ❹
Assembly	60 x €5.2	312.60 ❹
Finishing	10 x €10.48	104.80 ❹
Production cost	75%	15,867.80
Profit	25%	5,289.27 ❶
Selling Price	100%	€21,157.07 ❹

(d) 8

Absorption rates ❻
Per Labour Hour
Per Machine Hour
Per Unit
Per Percentage of Prime Cost

Overhead absorption rates are based on budgeted rather than actual costs because actual costs

may not be known until the end of the year and the business cannot wait until then to decide the cost of the product as they need to decide on the selling price to charge. ❷