

Question 8 - Product Costing

(a) Budgeted Overheads

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Department 1	Variable	Fixed
Budgeted overhead costs	£9,600	£3,300
Budgeted Hours	600	600
Overhead Absorption Rates	£16 per hour ⑤	£5.50 per hour ⑤

Department 2	Variable	Fixed
Budgeted overhead costs	£12,600	£2,100
Budgeted Hours	1,400	1,400
Overhead Absorption Rates	£9 per hr ⑤	£1.50 per hr ⑤

Department 3	Variable	Fixed
Budgeted overhead costs	£4,400	£900
Budgeted Hours	400	400
Overhead Absorption Rates	£11 per hour ⑤	£2.25 per hour ⑤

(b) General Administration Overhead

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$$\begin{aligned}
 \text{Overhead Absorption Rate per hour} &= \frac{\text{General Administration Overhead}}{\text{Total Budgeted Hours}} = \frac{£6,000}{2,400} \\
 &= £2.50 \text{ ⑩}
 \end{aligned}$$

Question 8 - (continued)

(c) Calculation of Product Cost and Selling price

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	£	£	
Direct Materials			2,100.00 ②
Direct wages:			
Department A (75 hours @ £9)		675	
Department B (150 hours @ £8)		1,200	
Department C (24 hours @ £10)		<u>240</u>	2,115.00 ⑥
Variable overheads			
Department A (75 hours @ £16)		1,200.00	
Department B (150 hours @ £9)		1,350.00	
Department C (24 hours @ £11)		<u>264.00</u>	2,814.00 ⑥
Fixed overheads			
Department A (75 hours @ £5.50)		412.50	
Department B (150 hours @ £1.50)		225.00	
Department C (24 hours @ £2.25)		<u>54.00</u>	691.50 ⑥
General Administration overhead (249 hours @ £2.50)			<u>622.50 ②</u>
Total Cost = 80% of selling price			8,343.00
Profit = 20% of Selling Price			<u>2,085.75 ②</u>
Selling Price = 100%			<u>10,428.75 ⑥</u>

(d)

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- To establish the selling price for the purpose of tendering ⑤
- To control costs - budget versus actual ⑤
- To help planning and decision making
- To ascertain the value of closing stock in order to prepare final accounts