

Questions

13.1 Intelco, a professional services firm, has overheads of \$500,000. It operates three divisions and an accountant's estimate of the overhead allocation per division is 50% for Division 1, 30% for Division 2 and 20% for Division 3. The divisions respectively bill 4,000, 2,000 and 3,000 hours. Calculate the:

- blanket (organization-wide) overhead recovery rate; and the
- cost centre overhead recovery rate for each division.

13.2 BCF Ltd manufactures a product known as a Grunge. Direct material and labour costs for each Grunge are €300 and €150 respectively. To produce a Grunge requires 20 hours, comprising 10 hours in machining, 7 hours in assembly and 3 hours in finishing. Information for each department is:

	<i>Machining</i>	<i>Assembly</i>	<i>Finishing</i>
Overhead costs (€)	120,000	80,000	30,000
Labour hours	20,000	10,000	10,000

Calculate the cost of producing a Grunge using a departmental overhead recovery rate.

13.3 Engineering Products plc produces Product GH1, which incurs costs of £150 for direct materials and £75 for direct labour. The company has estimated its production overhead and direct labour hours for a period as:

	<i>Dept A</i>	<i>Dept B</i>	<i>Dept C</i>
Overheads £	150,000	200,000	125,000
Direct labour hours	5,000	10,000	5,000

Product GH1 is produced using 10 hours in Dept A, 12 hours in Dept B and 5 hours in Dept C.

Calculate the total cost of each GH1 using:

- a plant-wide overhead recovery rate; and
- cost centre overhead recovery rates.

13.4 Haridan Co. uses activity-based costing. The company has two products, A and B. The annual production and sales of Product A are 8,000 units and of product B 6,000 units. There are three activity cost pools, with estimated total cost and expected activity as follows: