

EXAM-STYLE QUESTIONS

1 **B**

Unless the overtime has been carried out at the specific request of customer, it will be treated as an indirect production cost, i.e. factory overhead.

2 **C**

$$\text{Actual expected total time} = \frac{2,520}{0.9} = 2,800 \text{ hours}$$

$$\therefore \text{Budgeted labour cost} = 2,800 \times £4 = £11,200.$$

3 **B**

The stores function in a factory is an indirect activity. Any costs of the stores function are therefore classified as indirect.

4 **B**

$62,965 + 13,600 = £76,565$. The only direct costs are the wages paid to direct workers for ordinary time, plus the basic pay for overtime. Overtime premium and shift allowances are usually treated as overheads. However, if and when overtime and shift work are incurred specifically for a particular cost unit, they are classified as direct costs of that cost unit. Sick pay is treated as an overhead and is therefore classified as an indirect cost.

PRACTICE QUESTION

COMPONENTS A, B AND C

(a) Calculation of total payroll cost

		Grade of Labour				Total
		I	II	III	IV	£
		£	£	£	£	£
Basic pay:						
I	$6 \times £6.00 \times 40$	1,440.00				
II	$18 \times £5.00 \times 42$		3,780.00			
III	$4 \times £4.50 \times 40$			720.00		
IV	$1 \times £4.00 \times 44$				176.00	
		<u>1,440.00</u>	<u>3,780.00</u>	<u>720.00</u>	<u>176.00</u>	<u>5,920.00</u>

		£	£	£	£	£
Overtime premium:						
I	$6 \times £3.00 \times (40 - 38)$	36.00				
II	$18 \times £2.50 \times (42 - 38)$		180.00			
III	$4 \times £2.25 \times (40 - 38)$			18.00		
IV	$1 \times £2.00 \times (44 - 38)$				12.00	
		<u>36.00</u>	<u>180.00</u>	<u>18.00</u>	<u>12.00</u>	<u>246.00</u>

Bonus payable (see working):

		Grade of Labour				Total
		I	II	III	IV	£
		£	£	£	£	£
I	$\frac{240}{1,200} \times 360 \times (75\% \times £6)$	324.00				
II	$\frac{756}{1,200} \times 360 \times (75\% \times £5)$		850.50			
III	$\frac{160}{1,200} \times 360 \times (75\% \times £4.50)$			162.00		
IV	$\frac{44}{1,200} \times 360 \times (75\% \times £4)$				39.60	
		<u>324.00</u>	<u>850.50</u>	<u>162.00</u>	<u>39.60</u>	<u>1,376.10</u>
Total (gross) pay		<u>1,800.00</u>	<u>4,810.50</u>	<u>900.00</u>	<u>227.60</u>	<u>7,542.10</u>

Workings

Standard time for actual output:

<i>Component</i>	<i>Std hrs</i>	
A	$444 \times 0.5 =$	222
B	$900 \times 0.9 =$	810
C	$480 \times 1.1 =$	<u>528</u>
Total standard hours		<u>1,560</u>

Actual time:

<i>Grade</i>		
I	6×40	240
II	18×42	756
III	4×40	160
IV	1×44	<u>44</u>
Total standard hours		<u>1,200</u>
Total hours saved		<u>360</u>

(b) Advantages of a group incentive scheme:

- (i) Emphasises the need for worker co-operation to achieve required targets for the company.
- (ii) Applicable when a production line exists or when operatives work in crews or gangs.

Disadvantages of a group incentive scheme:

- (i) The more conscientious members of the group create the benefit that has to be shared with the less efficient members of the group. This can have a demotivational effect on the former.
- (ii) Where there are different degrees of skill required by members of the group it may be difficult to recognise this easily and objectively in allocating the bonus between the group members.