

## F2 – LECTURE EXAMPLE 3

Mars Ltd has decided to use the direct method to re-apportion service centre costs to its two production departments, mixing and stirring.

As calculated in the previous example this resulted in allocated overheads of \$177,444 and \$84,556 to the mixing and stirring departments respectively.

During the year the following data has been collected:

	Mixing	Stirring
Direct labour hours	12,500	4,000
Direct machine hours	2,000	10,000
Number of units	2,500	2,500
Direct materials cost	\$75,000	\$30,000
Direct labour cost	\$62,500	\$20,000

The products are divided up as follows:

	Units
Normal size	1,500
Fun size	1,000
	2,500

The following data is also available:

	Normal size (per unit)	Fun size (per unit)
Direct material/unit		
-Mixing	\$40	\$15
-Stirring	\$15	\$7.5
Direct labour hours/unit		
-Mixing	6hrs	3.5hrs
-Stirring	1.8hrs	1.3hrs
Machine hours/unit		
-Mixing	1hr	0.5hr
-Stirring	5hrs	2.5hrs

The labour cost in both departments is \$5/labour hour.

### **Required**

Using suitable bases calculate cost per unit for each type of the product.