F2 – LECTURE EXAMPLE 4

Mars Ltd has the following overheads in the year ended 31 December 2015:

Overhead	$
Rent	90,000
Insurance of machinery and equipment	40,000
Stores costs	75,000
Heating costs	57,000
	262,000

Additional information includes:

	Mixing	Stirring	Store	Canteen	Total
Floor space (square metres)	9,000	3,000	1,000	2,000	15,000
NBV of machinery and equipment $'000	2,000	1,000	600	400	4,000

Estimated work done by the service centres for other departments:

	Production Depts		Service Centres	
	Mixing	Stirring	Stores	Canteen
Stores	50%	30%	-	20%
Canteen	45%	40%	15%	-

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

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 the cost per unit for each type of the product.