**Question 33**

Mick Blair owns a firm which produces high-class clothing for ladies. It has 3 production departments and 2 service departments. The following information relates to its cost centres:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Production Departments** | | | **Service Departments** | |
|  | TOTAL | Cutting | Machining | Finishing | Maintenance | Canteen |
| Indirect Materials | £24,020 | — | — | — | £16,000 | £8,020 |
| Indirect Labour | £115,638 | £32,000 | £28,000 | £37,638 | £12,000 | £6,000 |
| Area (sq m) | 9,000 | 3,000 | 1,500 | 3,000 | 900 | 600 |
| No of Employees | 150 | 50 | 40 | 30 | 20 | 10 |
| Value of Machinery | £140,000 | £20,000 | £60,000 | £10,000 | £30,000 | £20,000 |
| Machine Hours | 25,000 | 10,000 | 8,000 | 4,000 | 3,000 | — |

The following is the estimated overhead expenditure for next year:

**Overheads**  **Total costs**

Machine Insurance £63,000

Staff Supervision £48,000

Heat and Light £36,000

Rent and Rates £99,000

Depreciation of Machinery £70,000

Indirect Materials £24,020

Indirect Labour £115,638

1. Complete the worksheet provided to calculate the total overheads to be allocated   
   and apportioned to each department. **18**
2. Re-apportion the total overhead costs of the canteen to the other 4 departments   
   on the basis of number of employees. **4**
3. Re-apportion the total overhead costs of the maintenance department (including the share from the canteen) to the other three departments on the following basis:

* Cutting department 50%
* Machining department 30%
* Finishing department 20% **4**

**(d)** Describe the following terms:

1. Profit mark-up
2. Flat rate payment system
3. Indirect cost
4. Contribution **4**

**Total marks 30**

|  |  |  |  |
| --- | --- | --- | --- |
| **Question** | **Expected answer(s)** | **Max**  **mark** | **Additional guidance** |
| **33 (a)**  **(b)**  **(c)** | |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Overhead** | **Basis** | **Total** | **Cutting** | **Machining** | **Finishing** | **Maintenance** | **Canteen** |  | |  |  | **£** | **£** | **£** |  |  | **£** |  | | Indirect Material | Allocated | £24,020 | — | — | — | £16,000 | £8,020 | **(1)** | | Indirect Labour | Allocated | £115,638 | £32,000 | £28,000 | £37,638 | £12,000 | £6,000 | **(1)** | | Machine Insurance | Value | £63,000 | £9,000 **(1)** | £27,000 | £4,500 | £13,500 | £9,000 | **(2)** | | Supervision | Employees | £48,000 | £16,000 **(1)** | £12,800 | £9,600 | £6,400 | £3,200 | **(2)** | | Heat and Light | Area | £36,000 | £12,000 **(1)** | £6,000 | £12,000 | £3,600 | £2,400 | **(2)** | | Rent and Rates | Area | £99,000 | £33,000 **(1)** | £16,500 | £33,000 | £9,900 | £6,600 | **(2)** | | Depreciation of Machinery | Value | £70,000 | £10,000 **(1)** | £30,000 | £5,000 | £15,000 | £10,000 | **(2)** | | **Total** |  | **£455,658** | **£112,000** | **£120,300** | **£101,738** | **£76,400** | **£45,220** | **(1)** | | Re-apportion |  |  |  |  |  |  |  |  | | Canteen |  | £45,220 | £16,150 **(1)** | £12,920 | £9,690 | £6,460 | **(2)** |  | |  |  |  | £128,150 | £133,220 | £111,428 | £82,860 | **(1)** |  | | Maintenance |  | £82,860 | £41,430 **(1)** | £24,858 | £16,572 | **(2)** |  |  | | **Total** |  |  | **£169,580** | **£158,078** | **£128,000** | **(1 for line)** | | | | **18**  **4**  **4** | If the basis of apportionment is wrong, do not award the first mark for cutting department but treat remaining departments as consequential.  **2 mark** awards are all or nothing. |

|  |  |  |  |
| --- | --- | --- | --- |
| **Question** | **Expected answer(s)** | **Max**  **mark** | **Additional guidance** |
| **33 (d) (i)** | **Profit mark-up:**   * A percentage/amount added to the cost of a job. **(1)** * A percentage/amount added to calculate the final selling price. **(1)** | 1 | Answer needs to have a description. Percentage on its own — **0 marks**.  **Do not accept** ‘a percentage which adds profit’, as profit is in the stem of the question. |
| **33 (d) (ii)** | **Flat rate:**   * A yearly salary. **(1)** * An amount paid which may not reflect time spent at work. **(1)** | **1** | Accept any other relevant answer. |
| **33 (d) (iii)** | **Indirect cost:**   * A cost which is not directly associated with the production of a good/service. **(1)** * Accept any relevant example, with description. **(1)** | **1** | Accept any other relevant answer. |
| **33 (d) (iv)** | **Contribution:**   * Selling price — variable costs. **(1)** * An amount made per product which helps to pay fixed costs. **(1)** | **1** | Accept any other relevant answer. |

**Worksheet for question**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Overhead** | **Basis of Apportionment** | **Total** | **Cutting** | **Machining** | **Finishing** | **Maintenance** | **Canteen** |
|  |  | **£** | **£** | **£** | **£** | **£** | **£** |
| Indirect Material | Allocated |  |  |  |  |  |  |
| Indirect Labour | Allocated |  |  |  |  |  |  |
| Machine Insurance |  |  |  |  |  |  |  |
| Staff Supervision |  |  |  |  |  |  |  |
| Heat and Light |  |  |  |  |  |  |  |
| Rent and Rates |  |  |  |  |  |  |  |
| Depreciation of Machinery |  |  |  |  |  |  |  |
| Total Department Overheads |  |  |  |  |  |  |  |
| **Re-apportionment of Overheads** |  |  |  |  |  |  |  |
| Canteen |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Maintenance |  |  |  |  |  |  |  |
| **Total Production Department Overheads** |  |  |  |  |  |  |  |