

Overheads with Activity Based Costing

Time Allowed : 35 Minutes
TEST-9
Total Marks: 20 Marks
Q.1: Explain Cost Apportionment.

(5 Marks)
Q.2: SNS Trading Company has three Main Departments and two Service Departments. The data for each department is given below:

Departments	Expenses (in ₹)	Area in (Sq. Mtr)	Number of Employees
Main Department :			
Purchase Department	5,00,000	12	800
Packing Department	8,00,000	15	1700
Distribution Department	3,50,000	7	700
Service Departments :			
Maintenance Department	6,40,000	4	200
Personnel Department	3,20,000	6	250

The cost of Maintenance Department and Personnel Department is distributed on the basis of 'Area in Square Metres' and 'Number of Employees' respectively.

You are required to:

- (i) Prepare a Statement showing the distribution of expenses of Service Departments to the Main Departments using the "Step Ladder method" of Overhead Distribution.
- (ii) Compute the Rate per hour of each Main Department, given that, the Purchase Department, Packing Department and Distribution Department works for 12 hours a day, 24 hours a day and 8 hours a day respectively. Assume that there are 365 days in a year and there are no holidays. **(5 Marks)**

Q.3 PQR Ltd. is engaged in the production of three products P, Q and R. The company calculates Activity Cost Rates on the basis of Cost Driver capacity which is provided as below:

Activity	Cost Driver	Cost Driver Capacity	Cost (₹)
Direct Labour hours	Labour hours	30,000 Labour hours	3,00,000
Production runs	No. of Production runs	600 Productions runs	1,80,000
Quality Inspections	No. of Inspection	8000 Inspections	2,40,000

The consumption of activities during the period is as under :

Activity /Products	P	Q	R
Direct Labour hours	10,000	8,000	6,000
Production runs	200	180	160
Quality Inspection	3,000	2,500	1,500

You are required to :

- (i) Compute the costs allocated to each Product from each Activity.
- (ii) Calculate the cost of unused capacity for each Activity.
- (iii) A potential customer has approached the company for supply of 12,000 units of a new product 'S' to be delivered in lots of 1500 units per quarter. This will involve an initial design cost of ₹ 30,000 and per quarter production will involve the following:

Direct Material	₹ 18,000
Direct Labour hours	1,500 hours
No. of Production runs	15
No. of Quality Inspection	250

Prepare cost sheet segregating Direct and Indirect costs and compute the Sales value per quarter of product 'S' using ABC system considering a markup of 20% on cost. **(10 Marks)**