

- 2.4 A company has a single cost centre in its factory where several different products are made. The following budgeted data relates to the factory:

|                                 |          |
|---------------------------------|----------|
| Overheads                       | £245,000 |
| Total production (all products) | 61,250   |
| Direct labour hours             | 17,500   |
| Machine hours                   | 12,250   |

Product K is one of the products made in the factory. It has the following data per unit:

|                       |           |
|-----------------------|-----------|
| Direct materials cost | £16.00    |
| Direct labour cost    | £25.00    |
| Direct labour hours   | 2 hours   |
| Machine hours         | 1.5 hours |

- Complete the following table to show the alternative overhead absorption rates and the total cost per unit of Product K using the each absorption method.
- State which one of the three overhead absorption methods is least likely to be appropriate for this company, and why.

| Overhead absorption method | Units of output | Direct labour hours | Machine hours |
|----------------------------|-----------------|---------------------|---------------|
|                            | £               | £                   | £             |
| Overhead absorption rate   |                 |                     |               |
|                            |                 |                     |               |
| Product K costs:           |                 |                     |               |
| Direct materials           |                 |                     |               |
| Direct labour              |                 |                     |               |
| Overheads                  |                 |                     |               |
| Total costs                |                 |                     |               |