



Department of Education, Sabaragamuwa/weekly school

week- March 1

Subject-Accounting

Grade-13

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Competency 14.0 – Evaluation of Basic Concepts of Management Accounting.

Competency Level 14.6 –Absorbs overhead cost to a production.

- (i) There are two production departments and a service department in a garment factory. Expenses of producing 1000 garments are as follows.

Item	Cutting section	Sewing section	Stores
Machine (Rs.)	700 000	1 400 000	-
Building (Rs.)	400 000	200 000	1 000 000
Area (sq ft)	10 000	50 000	10 000
No of workers	1 000	2 000	500
No of stores	50	30	-
Requisitons notes			
Indirect Materials (Rs.)	20 000	40 000	-
Indirect wages (Rs.)	50 000	100 000	-

	(Rs.)
Building rent	70 000
Electricity	14 000
Employee insurance	8 400
Machine insurance	3 000
Machine depreciation	30 000

Prepare production overhead analysis sheet.

Cost item	Basis of apportionment	Total value	Production Department		(Rs.)
			Cutting	Sewing	
Indirect machine	Direct /Allocation	60 000	20 000	40 000	-
Indirect wages	Direct /Allocation	150 000	50 000	100 000	-
Building rent	Area (1:5:1)	70 000	10 000	50 000	10 000
Electricity	Area (1:5:1)	14 000	2 000	10 000	2 000
Machine insurance	Value of machine (1:2)	3 000	1 000	2 000	-
Employee insurance	No. of Workers (2:4:1)	8 400	2 400	4 800	1 200
Machine depreciation	Value of machine (1:2)	30 000	10 000	20 000	-

Total overhead cost	Cost	335 400	95 400	226 800	13 200
Service department overhead cost	Stores requisitions (5:3)	---	8 250	4 950	(13 200)
Total overhead cost		335 400	103 650	231 750	-

(2) Following estimated costs are related to Cooray furniture shop for the next year.

Item	Production department		Service department
	A	B	S
Direct wages (Rs.)	360 000	120 000	20 000
Indirect materials (Rs.)	30 000	20 000	10 000
Direct materials (Rs.)	480 000	180 000	30 000

Other production overhead costs (Rs.)

Machine Depreciation	400 000
Employee expenses	200 000
Rent	300 000

	A	B	C
Cost of machine (Rs.)	125 000	70 000	5 000
Area (sq.ft.)	3 000	1 500	500
No of employees	60	30	10
Direct labour hours	3 700	3 350	-

Service department cost should be distributed among production department by using 1 : 1 basis.

Required :

1. Overhead analysis sheet
2. Secondary distribution
3. Calculate overhead absorption rates for A and B departments by using direct labour hours.

