

WEEK 6_WS_2: ACTIVITY BASED COSTING

Despix Ltd manufactures a range of three products, Aye, Bee and See. The following data have been gathered for the 2007 budget year:

	Aye	Bee	See
Sales of volume in units	100 000	50 000	10 000
No of bought in parts/units	4	4	12
No of manufactured parts/units	2	2	10
No of production orders/year	10	15	50
No of despatches/production order	1	2	1
Assembly: direct labour hours/unit	0.25	0.30	0.75
Machining: machine hours/unit	0.25	0.20	1.20

Budget manufacturing overheads for 2007

Assembly department:	Direct labour related costs	150 000
Machining department:	Operators' wages and related	205 000
	Setters' wages and related	35 000
	Power, maintenance and depreciation	245 000
Material handling department	Goods-inwards & stores	65 000
	Despatch section	38 000
Inspection department	Incoming parts inspection	24 000
	Machine "first-off" inspection	24 000
	Despatch inspection	24 000
Production planning department	Wages and other costs	38 000
Administration and general costs		180 000
Total		1 028 000

Notes:

1. All the products pass through the two main production departments. In the machining department some of the bought-in parts are machined into manufactured parts. These manufactured parts together with the other bought-in parts are assembled into the finished product in the Assembly department.
2. Machine "first-off" inspection is required each time a machine is set up to manufacture a batch of parts.
3. All manufacturing overhead is to be assigned to the products

Required

- a) Using an Activity Based Costing approach, calculate the assigned manufacturing overhead per unit for each product.
- b) Comment briefly on the advantages and disadvantages of using an Activity based costing approach to the overhead assignment.