

Redistribution of Service Department Costs .

The factory overhead expenses are to be charged to different jobs , production units, processes or operations. The service departments render services to the production departments . So, the service department costs are to be apportioned to the production departments in order to facilitate charging of all factory overheads to jobs , products, processes or operations . This apportionment is called secondary distribution .

The costs of service departments may be apportioned to production department in three different ways as follows :

- (a) Apportionment of service department costs to production departments straight .
- (b) Apportionment of service department costs to other service departments and production departments on non-reciprocal basis .
- (c) Apportionment of service department costs to other service departments and production departments on reciprocal basis .

Apportionment of Service department costs to production departments straight .

Here the services rendered by one service department to other service departments are ignored . It is assumed that each service department renders services to production departments only and hence its cost (including materials and wages of service departments) is distributed only to the production departments . An example is given with the help of the following illustration .

The following are the particulars relating to three production departments P₁, P₂ and P₃ and six service departments S₁ (Canteen), S₂ (Powerhouse-lighting), S₃ (Powerhouse-power), S₄ (Stores), S₅ (Accounts) and S₆ (Repairshop).

Costs after primary distribution are: P₁-Rs 60,000; P₂-Rs. 80,000; P₃-Rs. 90,000; S₁-Rs. 18,000; S₂-Rs. 18,000; S₃-Rs. 15,000; S₄-Rs. 36,000; S₅-Rs 9,000 and S₆-Rs. 30,000.

Other information available:

	<u>P₁</u>	<u>P₂</u>	<u>P₃</u>
Number of employees	20	30	40
Number of light points	5	6	7
Horse power of machine	500	300	700
Number of requisitions	2,000	1,500	2,500
Value of Assets (Rs. in lacs)	4	5	6

Show the Secondary distribution on direct redistribution method.
Solution:

Statement Showing Secondary Distribution

<u>Cost of Service Departments</u>	<u>Basis of Apportionment</u>	<u>Total (Rs)</u>	<u>P₁ (Rs)</u>	<u>P₂ (Rs)</u>	<u>P₃ (Rs)</u>
Cost after Primary distribution	-	2,30,000	60,000	80,000	90,000
S ₁ (Canteen)	No. of employees (2:3:4)	18,000	4,000	6,000	8,000
S ₂ (Powerhouse-lighting)	No. of light points (5:6:7)	18,000	5,000	6,000	7,000
S ₃ (Powerhouse-power)	Horse power (5:3:7)	15,000	5,000	3,000	7,000
S ₄ (Stores)	No. of requisitions (4:3:5)	36,000	12,000	9,000	15,000
S ₅ (Accounts)	No. of employees (2:3:4)	9,000	2,000	3,000	4,000
S ₆ (Repair Shop)	Value of Assets. (4:5:6)	30,000	8,000	10,000	12,000
		<u>3,56,000</u>	<u>96,000</u>	<u>1,17,000</u>	<u>1,43,000</u>