

## Paul Robbins training and consultancy

### Management Accounting: Decision and Control

#### Special Order Pricing

#### Exercise 1 **Model Answer**

**Green Grass is a company which supplies and fits turf. It uses an absorption costing system.**

**It has received a proposal from a local sports centre to lay an astro turf football pitch. The sports centre has got a maximum budget of £1,500.**

**The normal cost data for laying the astro turf pitch is as follows:**

<b>Direct Materials</b>	<b>55 M2 x £20 per M2</b>	<b>£1,100</b>
<b>Direct Labour</b>	<b>40 DLH x £13 per DLH</b>	<b>£520</b>
<b>Fixed Overheads</b>	<b>40 Hours x £2 Per Hour</b>	<b>£80</b>
<b>Total Absorbed Cost</b>		<b>£1,700</b>

**The following additional information has been provided:**

**Green Grass has already got enough astro turf in stock to complete this work and the astro turf will not be used for any other projects. The astro turf could be sold to another company for £11 per M2.**

**Direct labour is a variable cost. Taking on this additional work would result in having to pay staff at the overtime rate of £19 per direct labour hour.**

**Green Grass is already operating at its budgeted levels.**

#### **Tasks**

**Calculate the minimum cost that Green Grass should charge if it accepts the contract and recommend whether the contract with the sports centre should be accepted.**

### **Minimum Cost**

<b><i>Direct Materials</i></b>	<b><i>55 M2 x £11 per M2</i></b>	<b><i>£605</i></b>
<b><i>Direct Labour</i></b>	<b><i>40 DLH x £19 per DLH</i></b>	<b><i>£760</i></b>
<b><i>Fixed Overheads</i></b>	<b><i>None</i></b>	<b><i>£0</i></b>
<b><i>Minimum Cost</i></b>		<b><i>£1,365</i></b>

***The minimum cost that Green Grass should charge is £1,365 and therefore the contract with the sports centre for £1,500 should be accepted.***