

7.2 Pieman Products Ltd makes road trailers to the precise specifications of individual customers. The following are predicted to occur during the forthcoming year, which is about to start.

Direct materials cost	£50,000
Direct labour costs	£160,000
Direct labour time	16,000 hours
Indirect labour cost	£25,000
Depreciation of machine	£8,000
Rent and rates	£10,000
Heating, lighting and power	£5,000
Indirect materials	£2,000
Other indirect costs	£1,000
Machine time	3,000 hours

All direct labour is paid at the same hourly rate.

A customer has asked the business to build a trailer for transporting a racing motorcycle to races. It is estimated that this will require materials and components that will cost £1,150. It will take 250 direct labour hours to do the job, of which 50 will involve the use of machinery.

Required:

Deduce a logical cost for the job, and explain the basis of dealing with overheads that you propose.