REVIEW PROBLEM 2.1

PAPERGLASS Ltd purchases two different raw materials (A and B). There are 2 departments in charge of materials control: Purchasing and Warehouse.

The company uses budgeted rates for both departments based on:

- Purchasing Department: number of orders.
- Warehouse: capacity (m^3).

The following budgeted annual information is available:

- Purchasing Department's budgeted costs: €1,920.
- Orders to be placed: 3.
- Warehouse's budgeted costs: €7,850.
- Storage capacity of the warehouse: 4,500 m^3.
- Each kg of raw material A occupies 0.5 m^3.
- Each kg of raw material B occupies 0.75 m^3.

During 2015, the following transactions occurred:

- One order of 500 kg of raw material A was placed. Purchasing price: €5 per kg.
- One order of 5,000 kg of raw material B was placed. Purchasing price: €8 per kg.

Required:

1) Calculate the rates in order to assign material handling costs.
2) Calculate total costs of both orders.
3) Calculate the amount of under-recovery (or over-recovery) of both Purchasing Department and Warehouse's costs if Purchasing Department's actual costs = €1,800 € and Warehouse's actual costs = €8,000.