

REVIEW PROBLEM 3.1

You are given the following information about the Packaging Department of the company EARTH for financial year 2015:

- One employee works at this department. His salary amounts to €1,300 per month.
- This employee packs the product which is manufactured in other departments. The cost of the plastic which is used to pack amounts to €2 per manufactured unit.
- A machine is used at this department. Its depreciation amounts to €1,000 per month.
- 1,000 units are packed at this department each month.

The company EARTH plans to offer a premium to the employee who works at the Packaging Department for financial year 2016 if he manages to pack 1,200 units per month:

- He is offered to receive €600 per month (a fixed amount, no matter the number of units he packs), plus
- €1.30 per packed unit.

The company estimates that with this premium, if the employee manages to pack 1,200 per month, he would receive €2,160 per month ($600 + 1,200 \times 1.30$).

Required:

- 1) Calculate labour cost per unit and total cost per unit for financial year 2015.
- 2) Calculate labour cost per unit and total cost per unit for financial year 2016 if the employee receives the premium.
- 3) Calculate the premium to be paid if the company wants to pay the employee the value of the time he has saved.

