CHAPTER
11 Summary

Terminology

Terminology	Description
Direct materials	Raw materials used to manufacture the product.
Indirect materials	Any other materials needed to manufacture the product, but cannot be attributed directly to specific items.
Direct labour	Employees directly involved in the manufacturing process.
Indirect labour	Employees not directly involved in the manufacturing process.
Prime costs	Total of direct labour and direct material costs.
Factory overhead costs	Those costs which cannot be directly linked to the manufacturing of the items.
Sales and distribution costs	Costs incurred during the selling and distribution process.
Administration costs	Costs incurred during the administration process in operating the business.

Calculations and interpretation

Direct material cost per unit $= \frac{DMC}{u}$ $= \frac{\text{Direct material costs}}{\text{Total units produced}}$	Direct labour costs per unit $= \frac{DLC}{u}$ $= \frac{\text{Direct labour costs}}{\text{Total units produced}}$
Total direct costs per unit $= \frac{\text{Total direct costs}}{\text{Total units produced}}$	Factory overhead costs per unit $= \frac{DOHC}{u}$ $= \frac{\text{Factory overhead costs}}{\text{Total units produced}}$
Cost of finished goods per unit $= \frac{\text{Cost of production of finished goods}}{\text{Total units produced}}$	Sales & distribution costs per unit $= \frac{SDC}{u}$ $= \frac{\text{Sales and distribution costs}}{\text{Total units sold}}$
Administration costs per unit $= \frac{AC}{u}$ $= \frac{\text{Administration costs}}{\text{Total units produced}}$	Variable cost per unit $= \frac{DMC}{u} + \frac{DLC}{u} + \frac{SDC}{u}$
Fixed costs per unit $= \frac{FOHC}{u} + \frac{AC}{u}$	Contribution per unit = Sales price per unit – Variable costs per unit $= \frac{SP}{u} - \frac{VC}{u}$
Break-even point $= \frac{\text{Fixed costs}}{\text{Contribution per unit}}$ $= \frac{FC}{\frac{SP}{u} - \frac{VC}{u}}$	

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