

11/8/05

(Cap Proj-SPL Trigger Assy M/700 & 7 - Unit Cost Update - Current & Proposed Nov '05)

M/700 SPL Trigger Assembly
Vs.
M/700 Trigger Assembly
(2006 Vs. 2005)

Based on 2005 Labor, and Overhead Rates, it's estimated on 8/29/05 that the M/700 SPL Trigger Assembly would cost **(\$6.10) more** compared to M/700 Trigger Assembly (\$21.18 Vs. \$15.08).

Based on 2006 estimated Labor, and Overhead Rates, it's now estimated that the M/700 SPL Trigger Assembly would cost **(\$11.62) more** compared to M/700 Trigger Assembly (\$28.76 vs. \$17.14). This will have a significant negative impact on the profitability of the business in the year 2006.

This significant cost increase (2006 vs. 2005) is contributed primarily by the estimated 2006 Labor, and Overhead Rates for the new production department (#8773) where the M/700 SPL Trigger Assembly will be done.

Labor, and Overhead Rates for both 2006, and 2005 used in the calculations are given below:

	<u>2006</u>	<u>2005</u>	<u>2006 Vs.</u> <u>2005</u> Incr / (Decr)
Production Dept.	8773 (New Dept)	8772 (Existing Dept)	
Std. Direct Labor (\$/hr)	\$ 22.50	\$ 18.51	21.6%
Overhead Rate (% of direct Labor)	294.3%	190.6%	54.4%

2006 Rates are developed from the 2006 Departmental Budgets.