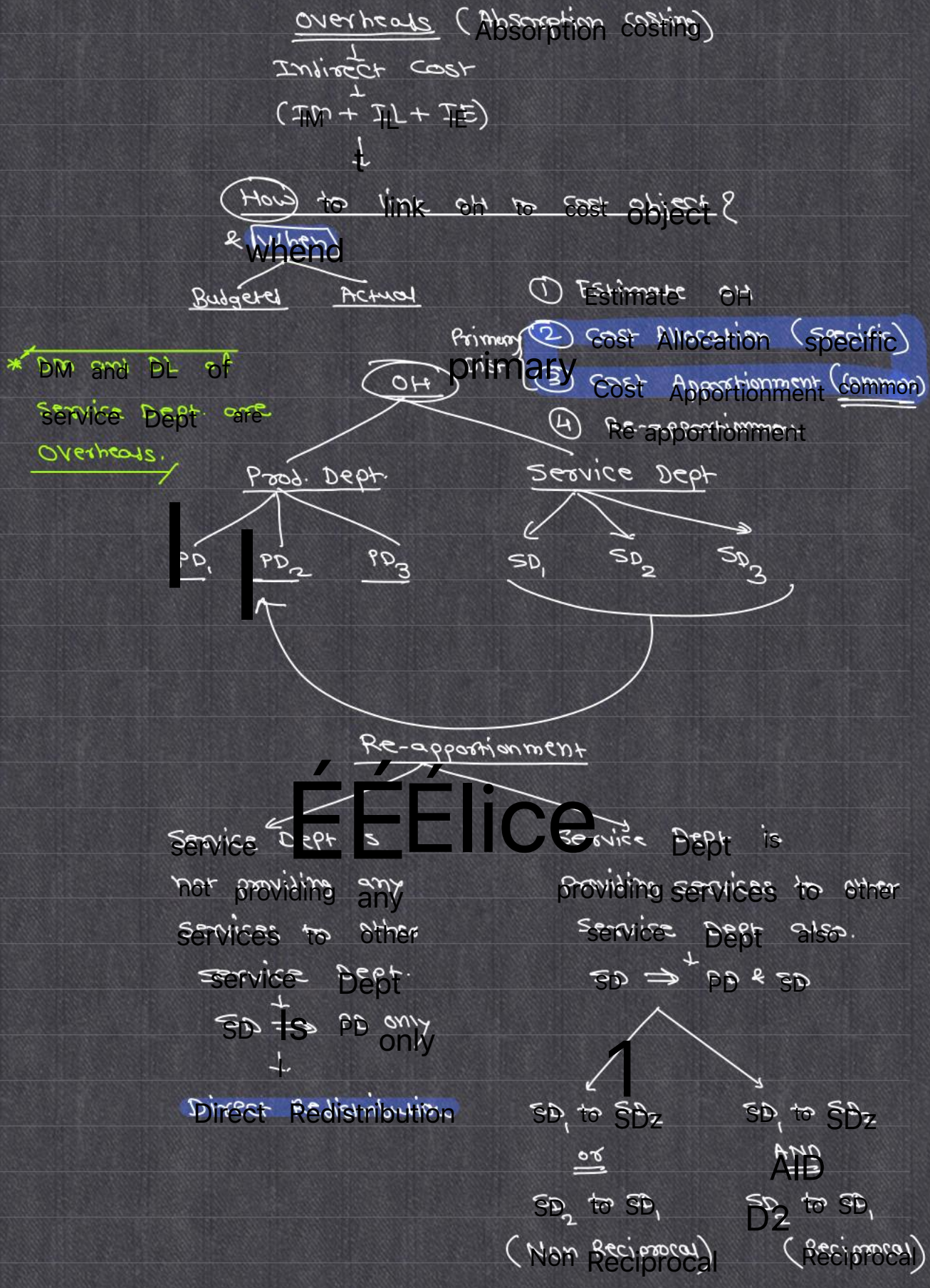

Overheads (Absorption costing)
Indirect Cost
(IM + IL + IE)
How to link OH to cost object
& When
whend
Budgeted
Actual
① Estimate OH
② Cost Allocation (specific)
③ Cost Apportionment (common)
④ Re-apportionment
Primary
primary
DM and DL of service Dept are Overheads.
OH
Prod. Dept
Service Dept
PD1
PD2
PD3
SD1
SD2
SD3
Re-apportionment
ÉÉÉlice
Service Dept is not providing any services to other service Dept
SD
PD only
Is
Direct Redistribution
Service Dept is providing services to other service Dept also.
SD
PD & SD
1
SD1 to SDz
or
SD2 to SD1
(Non Reciprocal)
SD1 to SDz
AND
SD2 to SD1
(Reciprocal)

step taster method

simultaneous equation Method Od

Repeated Redistribution method

Sn.	Particulars	Amt (total)	Basis	PD1	PD2	SD3	SD4
	OH as per primary Distribution Ata	-F-		---	---	---	---
	Re-app of SD1			---	----	(- - -)	
	Re-app of SD2			---	---		(- - -)
	Total			---	---	0	0

* $S_1 \Rightarrow S_2\ S_3\ S_4\ S_5$ (4)

$S_2 \Rightarrow S_3\ S_4$ (2)

$S_3 \Rightarrow S_4$ (1)

$S_4 \Rightarrow$ None (10)

$S_5 \Rightarrow$ None (0)

* under Step Ladder method we re-apportion OH of Service Dept providing Services to Maximum no. of other Service Dept.

	S_1	S_2	S_3
OH as per primary Dist.	---	990	---
Reapp of S_1	(- - -)	---	---
	0	5890	---
Reapp of S_2		(5890)	---
		45800	---
		0	---

OH of S_1 = OH of S_1 as per primary Dist + OH Received from S_2

x = 340,000 + 0040 y

YOH

OH of S_2 = OH of S_2 as per primary pig + OH Received from S_1

y = 6,10,000 + 0.3ose

	PD_1	PD_2	SD_1	SD_2
S_1 Provides to	40%	30%	—	30%
S_2 provides to	50%	10%	40%	—

Primary OH of S_1 = 340,000 x = 340000

11 S_2 = 6,10,000 52 Y = 6,10600

as per primary	S_1	S_2
S_1	3,40,000	6,10,000
S_2	(3,73,450)	− 4930.0
	33,450	(6,59,300)
	0	0

steps Absorption (absorption Rate)

① Machine Hour Rate = Comprehensive OH of mic / machine Hrs

(a) set up time & Productive time

(Two Tier MHR)

(b) Amt are p.m., p.m., per quarter etc.

AND

Per m/c or All M/C

(c) Running cost (Variable) } Show two
Standing Charges (fixed) } Seperately

Running
standing charges separately

e.g. FTIR = 35/Hour for 4000 Hrs

Fixed cost = 240000

Find MHR at 7000 Level.

Sol: Var. Cost at Present per Hour = $\frac{(4000 \times 35) - 90000}{4000}$

= 25/148

At 7000 Level MHR will be = $\frac{(7000 \times 25) + 40000}{7000}$

= 30.71 / 42

HTevel

(2) Labour Hour Rate

(3) y. of Direct labour cost = OH / lab. cost

(4) F or Matos

(5) /. of prime cost

bysorption

Absorption

Blanket Rate

Departmental Rate

Step 6 : Absorbed OH = किसना खर्च होना

Std. OH

For Actual output

e.g. SH/unit = 4 Hrs

Budgeted output = 25000 units

Budgeted OH = 29,50000

Actual output = 31000 Units Act Hrs = 114,000

Actual OH = 85,000

Absorption Rate Per Hour = Budgeted OH / Total Hrs

$= \frac{9,50,000}{(25000 \times 4)}$

$= 9.50$ / Hour

Absorption Rate per unit $= 9.50 \times 4 = 38$/unit

Absorbed OH = Actual Otp x Absorption Rate / unit

$= 31000 \times 38 = 11,78,000$

ID

Absorbed OH = Actual Hrs x Absorption Rate / Hour

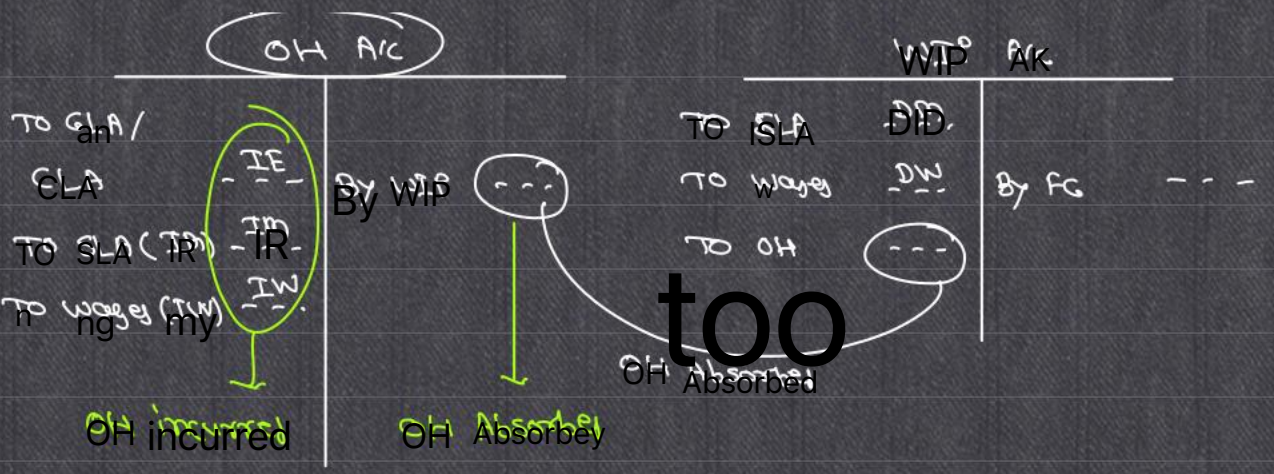
$= 114,000 \times 9.50$

$= 83,000$

Absorber OH = Stt. Hrs x Absorption Rate / Hour

$= (31000 \times 4) \times 9.50$

$= 11,78,000$



Dr Bal in OH A/c ⇒ under Absorption ⇒ Adverse variance

Cr Bal in OH A/c ⇒ over Absorption ⇒ Favourable variance

of Absotion

under / over Absorption Analysis

as per Accounting Angie

(overheads Chapter)

Normal reasons (unavoidable reasons)

e.g. price level change

Supplementary Rate method

SR = OA or VA due to Normal reasons

Eg units

Debit or Credit to WIP A/c, FG A/c, Cost of Sales A/c

cited

Abnormal reasons

e's Natural calamity

Transfer to costing P&L

Physical aty

Eg

e.g. Job Qty

Less: Still in WIP

∴ FG Completed

Less: Still in stock

∴ Sold

Qty

5701 = 1400

1007 = 1500

1001 = 6500

99

202

650

OH incurred = 21900,000

OH Absorber = 17,10,000

∴ UA = 190,000

Supplementary Rate per unit = UA due to normal reasons / Eq. units

= 190000 / 9500

= 20.21 / unit

WIP AK	(1400 × 20.21)	28294
Fg AK	(1500 720.21)	30315
cost of sales Ac	(6500 × 20.21)	131365 pesos
TO OH AK		189,974

If Amt of UA / OA is very small then we carry forward Amt of UA/OA without any Analysis

Analysis of UA/OA from Mgmt Angle

(Stantars costing)

OH cost variance = Std Cost − Actual cost

= (Act op × SR/unit) − Actual cost

TAX

VA or OA

OR

= (Sty. Hrs x SR/Hour) − Actual Cost

How to separate SVC ?

- Regression
- Analyse Vouchers
- High Low method

Beta or slope (p) = variable cost

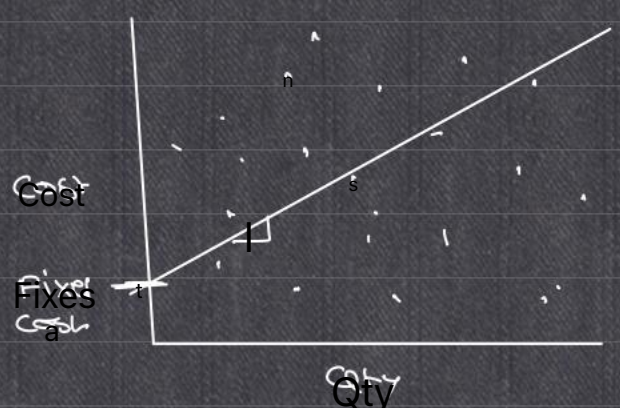
y intercept = Fixed cost

Var. cost/unit = Change in cost / Change in Qty

SVC = Var. Cost − Fixed Cost

SVC = Qty x Var. Cost/unit + Fix. Cost

Qty	SVC (Y)



$$\text{slope } (m) = \frac{\text{Covariance}_{xy}}{\text{Variance}_x} = \frac{\Sigma (x-\bar{x})(y-\bar{y})}{\Sigma (x-\bar{x})^2}$$

$$y = mx + c$$

$$\bar{y} = m\bar{x} + c$$

$$\bar{y} - m\bar{x} = c \rightarrow \text{Fixed cost}$$

Analysis of Var OH cost variance (His Basey)

VOH var = (SH × SR) − (AH × AR)

Efficiency variance = (SH − AH) × SR/Hour

Exp variance (Price Level) = (SR − FAR) AH

Analysis of Var OH cost variance (output Based) naff Eutsey

Vote var = (Act OP × SR) − (Act Olp × A Run it)

Efficiency variance = (Std − Actual) × SR/unit

Etf − Agt × styunit

Exp variance = (Std Olp × SRlunit) − Actual overheats

stroll

Fixed overseas variance (Output Basel)

FOH Cost Variance = Std Cost − Actual cost

= (Act × SRunit) − (Act Olp × Actual) 49 Ratigan

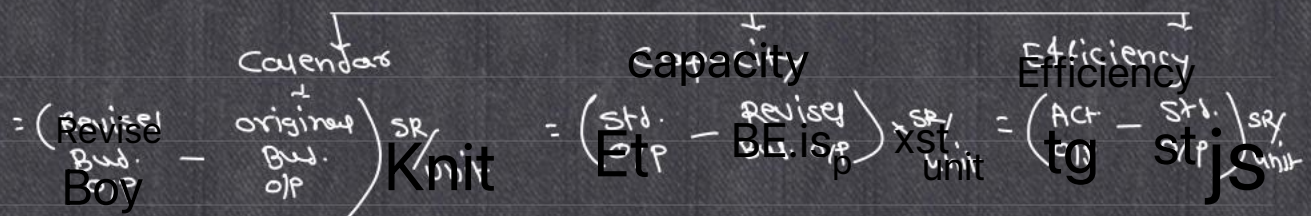
Efx SMunit

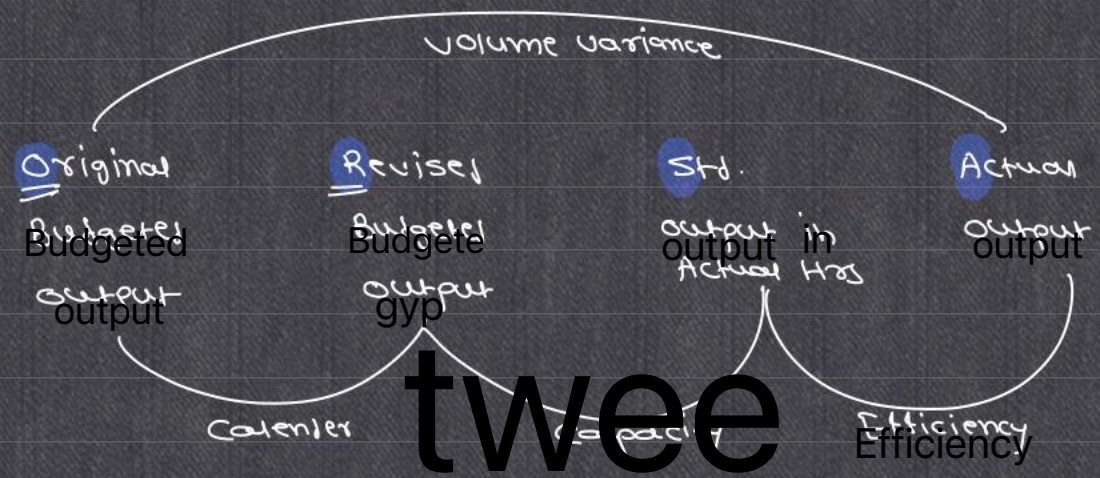
Fixed overheat Exp variance = (Budgeted Fixes OH − Actual Fixed OH) EYOH

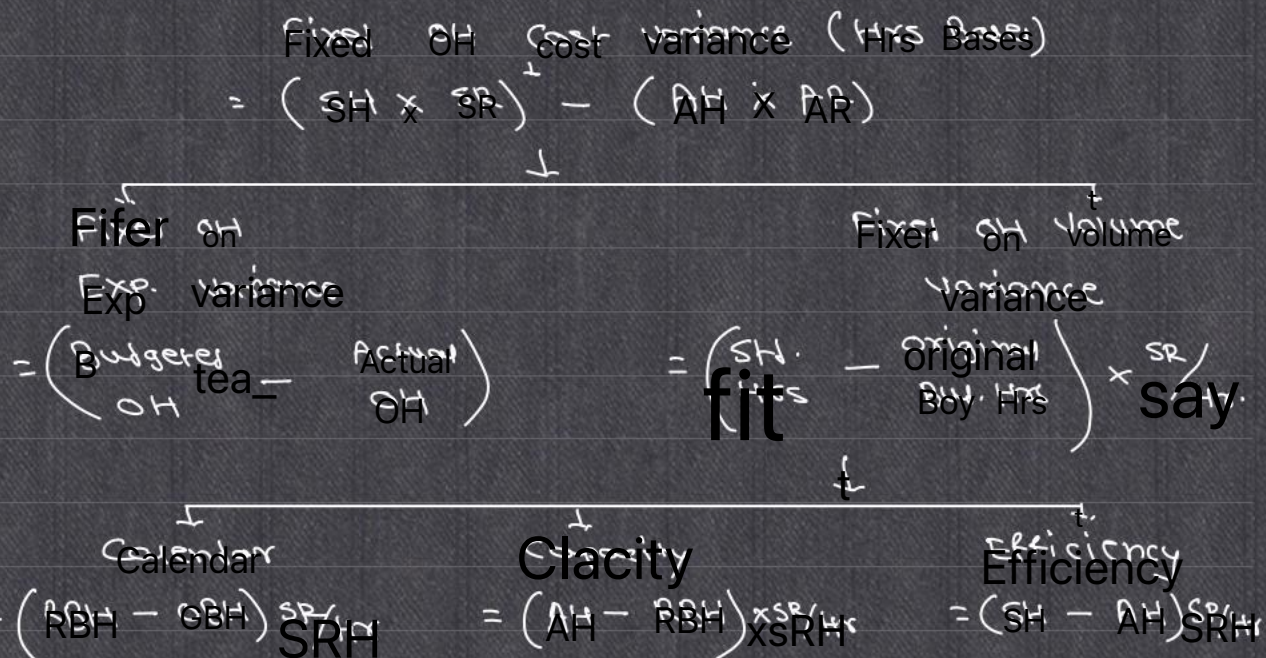
fixed overhead Volume variance = (Actual − original But Olp) SR/ skuni

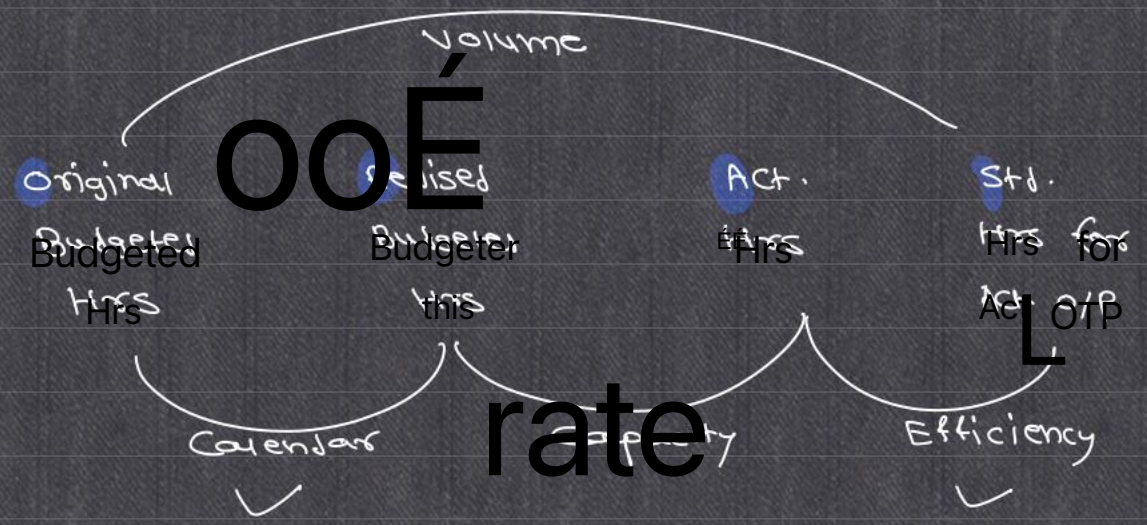
Eigg

1


Calendar
capacity
Efficiency
Revise
Boy
Knit
Et
BE.is
xst
tg
st
js


Volume Variance
Original
Budgeted
output
Revised
Budgete
gyp
Std.
output in
Actual Hrs
Actual
output
twee
Calendar
Efficiency


Fixed OH cost variance (Hrs Bases)
Fifer
on
Exp
variance
tea
Fixer
on
volume
variance
fit
say
Calendar
Clacity
Efficiency
SRH
xSRH
SRH



ooÉ

rate

L

Controtratio s

(iii) Efficiency Ratio = $\frac{\text{Std. Hrs for Act. o/p}}{\text{Actual Hrs}} \times 100$

(ii) Calendar Ratio = $\frac{\text{Revised But. Hrs}}{\text{original Bug. Hrs}} \times 100$

OR

OR.IE

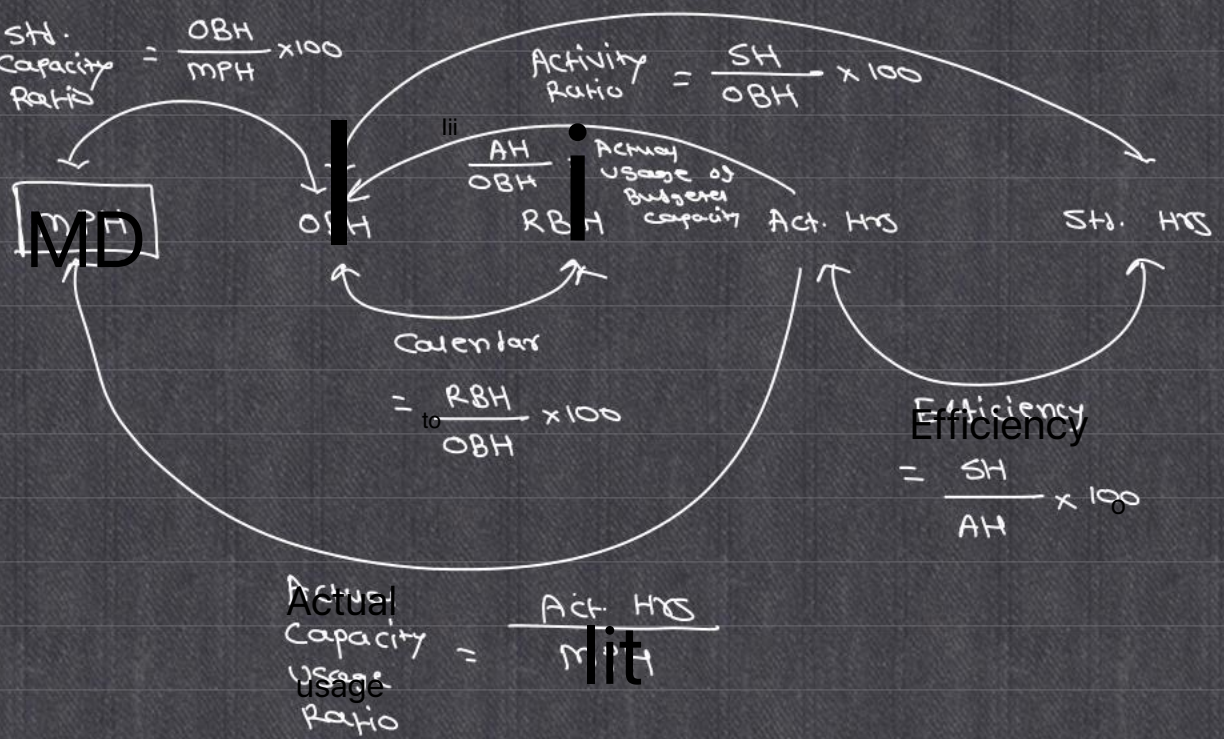
(ii) Std. Capacity usage = $\frac{\text{But. Hrs}}{\text{Max Possible Hrs in Budget}} \times 100$

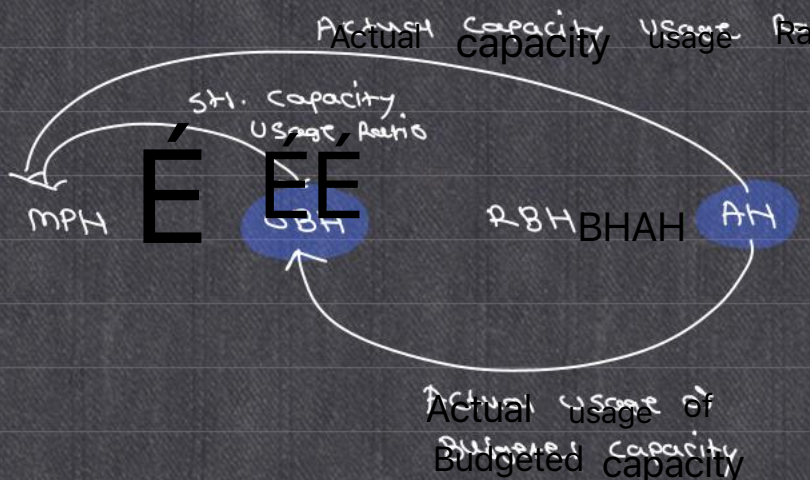
sqipacity

(it) Actual Capacity Usage Ratio = $\frac{\text{Actual Hog}}{\text{Max Possible Hrs}} \times 100$

(v) Actual usage of Budgeted capacity = Actual Hrs / Original Bud. Hrs × 100

(vi) Activity Ratio = Std. Hrs / original Bud. Hrs × 100





Control Ratio's (Based on O/P)