Overheads

Notes:

Q.1 Discuss the difference between allocation and apportionment of overhead.

Answer:

Basis of Difference	**Allocation**	**Apportionment**
Meaning	Identifying a cost centre and charging its expenses in full.	Allotment of Pro-portions of common cost to various cost centre.
Nature of expenses	Specific and identifiable	General and common
Number of Centre (Deptt.)	One	Many
Basis	Allocate directly	Allocate Indirectly
Amount of overhead	Charge in full	Charge in proportion able
Assumption	Not required	Required

Q.2 What are the methods of re-apportionment of service department expenses over the production departments? Discuss.

Answer:

The following methods are generally used for re-apportionment according to the specified circumstances:

Methods of Re-apportionment: 1. Direct Re-apportionment Method
2. Step Method
3. Reciprocal Service Method

Reciprocal Service Method: 1. Trial & Error Method
2. Repeated Distribution Method
3. Simultaneous Equation Method

Q.3 Explain the treatment of over and under absorption of overheads in cost accounts.

Answer:

Treatment of over & under absorption of overheads:
Overhead expenses are usually applied to production on the basis of predetermined rates. Production overheads are to be determined in advance as follows for fixing selling price, quote tender price and formulate budget etc.

$$\text{Pre-determined OHs rate} = \frac{\text{Estimated/Normal OHs for the period}}{\text{Budgeted Number of units during the period}}$$

The actual OHs rate will rarely coincide with the pre-determined OHs rate, due to variation in pre-determined OHs rate and actual OHs rates are differs:

Treatment of over and under absorption of overheads are:-

i. **Writing off to costing P&L A/c:**
   - If there is a small difference between the actual and absorbed amount should simply be transferred to costing P&L A/c.
   - If difference is large then investigate the causes and after that abnormal loss/gain shall be transferred to costing P&L A/c.

ii. **Use of supplementary Rate:** In this method the balance of under and over absorbed overheads may be charged to cost of W.I.P., finished stock and cost of sales proportionately with the help of supplementary rate of overhead.

iii. **Carry Forward to Subsequent Year:** Difference should be carried forward in the expectation that next year the position will be automatically corrected.

Q.4 **How would you account for idle capacity cost in Cost Accounting?**

Answer:

Idle Capacity Cost:
- Idle capacity is that part of capacity of a plant, machine or equipment which cannot be used due to different reasons which may be avoidable or unavoidable. It is the difference between practical capacity and capacity based on sales expectancy.

Accounting for idle capacity in Cost Accounting:
- Normal idle capacity cost cannot be avoided and it should be absorbed in cost by inflating the rate. But if it is due to un-avoidable reasons, it may be charged to Profit & Loss Account.