Quadrant II – Glossary

Programme: Bachelor of Commerce (Third Year)

Subject: Commerce

Paper Code: COD 106

Paper Title: DSE 2. Major II. Cost Accounting II

Unit: 3 – Overhead Classification, Allocation and Apportionment

Module Name: Primary Distribution of Overheads

Module No: 13

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Glossary

Cost - is a measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services.

Cost Classification - involves the separation of a group of expenses into different categories.

Direct Cost and Indirect Cost - Direct costs are those which can be conveniently identified with a cost unit or cost centre. Indirect Costs are those costs that cannot be identified with a cost centre or cost unit.

Cost Allocation - The process of identifying, accumulating and assigning costs to costs objects.

Allocation of Overheads - assigning total amount of an item of cost directly to a cost object.

Apportionment of Overheads - distribution of overheads to more than one cost objects on some equitable basis.

Additional Illustrations:

MNL Manufactures Ltd. have three production departments 'X', 'Y' and 'Z' and two service departments 'P' and 'Q', the details pertaining to which are as under:

	Production Departments			Service Departments	
	X	Y	Z	P	Q
Direct Wages (Rs)	12,000	8,000	12,000	6,000	780
Value of machines (Rs.)	2,40,000	3,20,000	4,00,000	20,000	20,000
Horse Power of machines (kwh)	240	120	200	40	-
Light Points (numbers)	40	60	80	40	20
Area (sq.ft.)	8,000	10,000	12,000	8,000	2,000

The following figures extracted from the accounting records are relevant:

	Amount (Rs.)
Rent and Rates	20,000
General Lighting	2,400
Indirect wages	7,756
Power	6,000
Depreciation on Machines	40,000
Sundries	38,780

Prepare Primary distribution statement showing distribution of overheads to various departments.

Solution

Primary Distribution Summary

Item/Expense	Basis of Apportionment	Total (Rs.)	Production Departments			Service Departments	
			X	Y	Z	P	Q
Direct Wages (Rs)	Actuals	6,780	-	-	-	6,000	780
Rent and Rates	Area (sq.ft.)	20,000	4,000	5,000	6,000	4,000	1,000
General Lighting	Light Points (nos.)	2,400	400	600	800	400	200
Indirect wages	Direct Wages (Rs)	7,756	2,400	1,600	2,400	1,200	156
Power	Horse Power of Machines (kwh)	6,000	2,400	1,200	2,000	400	-
Depreciation on Machines	Value of machines (Rs.)	40,000	9,600	12,800	16,000	800	800
Sundries	Direct Wages (Rs)	38,780	12,000	8,000	12,000	6,000	780
TOTAL		**1,21,716**	**30,800**	**29,200**	**39,200**	**18,800**	**3,716**

Working Note:

Expenses	**Basis of Appor.**	**X**	**Y**	**Z**	**P**	**Q**	**Total**
1. Rent and Rates	Area (sq.ft.)	8,000	10,000	12,000	8,000	2,000	
(Rs 20,000)		4	5	6	4	1	20
		20,000 x 4/20 = 4,000	20,000 x 5/20 = 5,000	20,000 x 6/20 = 6,000	20,000 x 4/20 = 4,000	20,000 x 1/20 = 1,000	
2. General Lighting	Light Point (nos.)	40	60	80	40	20	
(Rs 2,400)		2	3	4	2	1	12
		2,400 x 2/12 = 400	2,400 x 3/12 = 600	2,400 x 4/12 = 800	2,400 x 2/12 = 400	2,400 x 1/12 = 200	
3. Indirect Wages	Direct Wages (Rs)	12,000	8,000	12,000	6,000	780	
(Rs 7,756)		600	400	600	300	39	1939
		7,756 x 600/1939 = 2,400	7,756 x 400/1939 = 1,600	7,756 x 600/1939 = 2,400	7,756 x 300/1939 = 1,200	7,756 x 39/1939 = 156	
4. Power (Rs 6,000)	Horse Power of machines (kwh)	240 6	120 3	200 5	40 1	-	15
		6,000 x 6/15 = 2,400	6,000 x 3/15 = 1,200	6,000 x 5/15 = 2,000	6,000 x 1/15 = 400		
5.Depreciation on Machines (Rs 40,000)	Value of machines (Rs.)	2,40,000 12	3,20,000 16	4,00,000 20	20,000 1	20,000 1	50
		40,000 x 12/50 = 9,600	40,000 x 16/50 = 12,800	40,000 x 20/50 = 16,000	40,000 x 1/50 = 800	40,000 x 1/50 = 800	
6. Sundries (Rs 38,780)	Direct Wages (Rs)	12,000 600	8,000 400	12,000 600	6,000 300	780 39	1939
		38,780 x 600/1939 = 12,000	38,780 x 400/1939 = 8,000	38,780 x 600/1939 = 12,000	38,780 x 300/1939 = 6,000	38,780 x 39/1939 = 780	