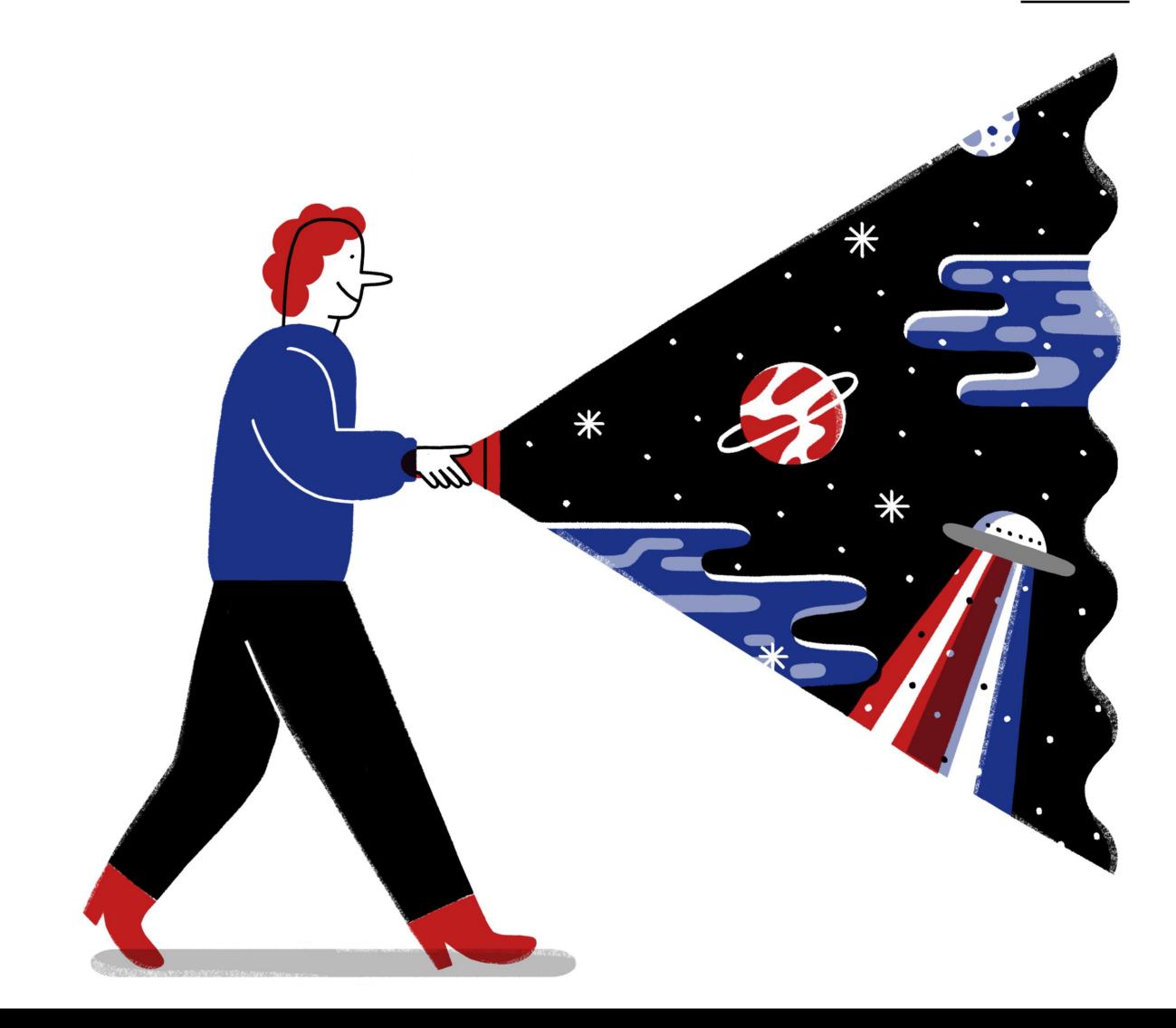
MANAGEMENT ACCOUNTING SPRING 2025

Management Accounting

PRACTICAL CLASS 6







MOH's & Departments IN PRACTICE

Companies link MOH to Cost Centres, which are usually departments/production stages.

Inside the factory, there are 2 Types of Departments 🔁

We must link Services Departments Costs to the Production

Departments which we can link to Products

How? Compute Overhead Rates on Service Departments and Allocate them to Production Departments based on usage.

But there's a problem... What if Cleaning needs Maintenance?

(Interactions between Service Departments)



Production Departments

Departments that are **Directly Involved** in the production of the finished goods

e.g. Sewing, Cutting, Painting

Service Departments Departments that **Support** the functioning of other departments

e.g. Maintenance, Factory Administration, Cleaning...

Homogenous Cost Pool

3 METHODS

Which is to say:

- Direct Method: Just pretend interactions don't exist
- **Step-Down Method:** Just pretend (small) interactions don't exist
- Simultaneous Equation Method: Flex your Math Skills to be as precise as possible



Direct Method

Disregard interactions between **Service** Departments

Sequential or Step-Down Method

Disregard the smallest interactions (% of usage)

Simultaneous Equation Method

Includes all the mutual services provided by cost

Homogenous Cost Pools IN PRACTICE

1. Assigning all manufacturing overheads to production and service cost centres.

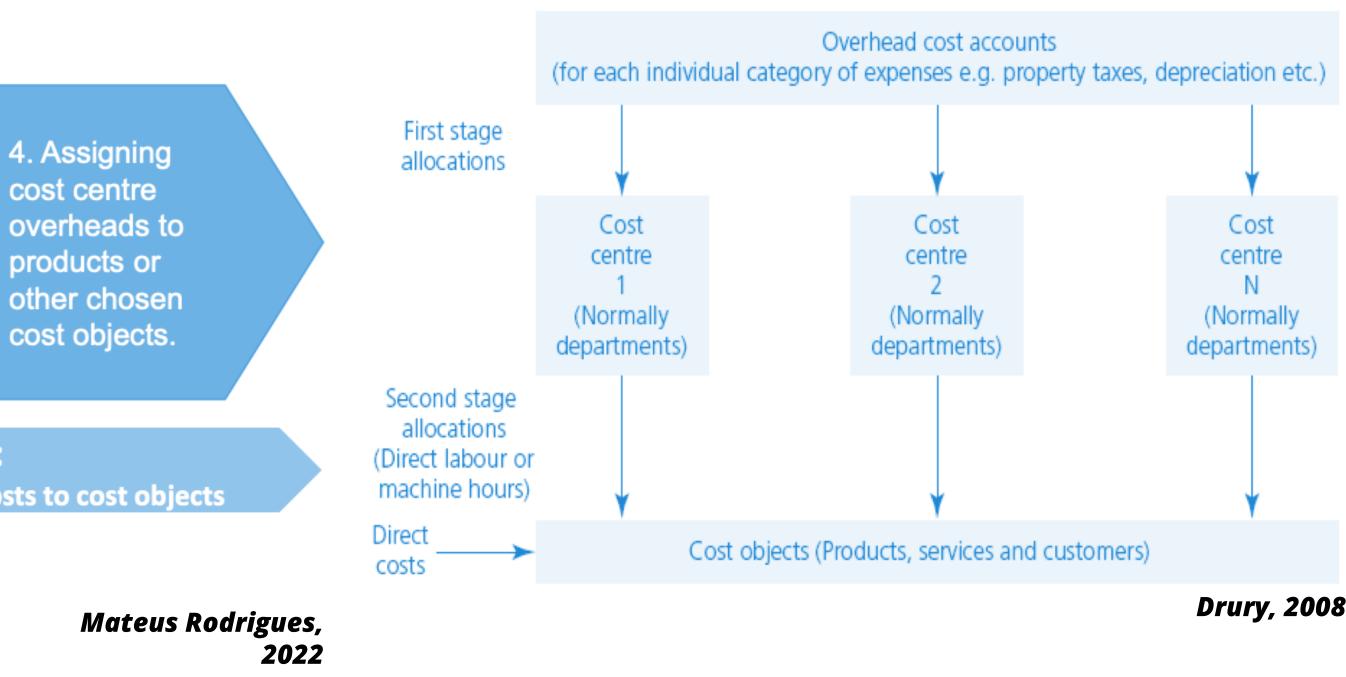
2. Reallocating the costs assigned to service cost centres to production cost centres.

3. Computing separate overhead rates for each production cost centre.

Stage 1: **Overheads assignment to cost centres**

Stage 2: Allocation of cost centres costs to cost objects





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Exercise

15 – MASSA ITALIANA COMPANY



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