



# Management Accounting

Spring 2025

TA Pedro Perdigão - [pedro.perdigao@novasbe.pt](mailto:pedro.perdigao@novasbe.pt)

Practical Class #4

# Agenda

01

## THEORETICAL RECAP

Traditional Costing Systems

02

## EXERCISE 9

The Eletronics Company



# Traditional Costing System–SOR

## Single Overhead Rate:

- 1.Overheads are accumulated in one single plant wide pool
- 2.Then, a single overhead rate is computed by dividing the total OH accumulated by the selected allocation base (DM units, for example)
- 3.OH costs are assigned to products by multiplying the SOR by the units of the selected allocation base

## This is what we did on problem 8!

- 1.Aggregate all the OH (83300 €)
- 2.Compute total of allocation base (DM, 170000 €) and divide Total OH by Total DM to get the SOR (0.49)
- 3.Assign OH to Product A and B by multiplying the SOR by the amount of the allocation base (DM of A for A and DM of B for B) ( $A \rightarrow 0.49 * 68000\text{€}$ ,  $B \rightarrow 0.49 * 102000\text{€}$ )

# Single Overhead Rate– Problem

If the company produces more than one product or has more than one department, **the amount of OHs may vary by department**. By using a SOR, we are allocating costs in an inaccurate way.

Example:

	Department A	Department B	Department C	Total
Overheads	2 000 000€	6 000 000€	1 000 000 €	9 000 000€
Direct Labour Hours	200 000	200 000	200 000	600 000

Total OHs: 9 000 000€; Total Direct LHs: 600 000;  $\text{SOR} = 9\,000\,000 / 600\,000 = 15\text{€ per DLH}$

Actual Overhead rate per DLH	10€	30€	5€	15€
------------------------------	-----	-----	----	-----

# Solution– Multiple Overhead Rates

The problems is solved if for companies with more than one department, they compute separate overhead rates (1 for each department). Makes sense when each department consumes resources differently → **Multiple Overhead Rates**



# Do we assign the right amount of overheads?

As we cannot directly allocate Overheads, we are making estimates. The firm establishes a yearly budget, but overheads can fluctuate monthly, meaning we can either **under or overestimate the amount of OHs** the firm actually had.

**1. Under recovery of OH:** actual OH > allocated OH (means we actually spent more than budgeted)

- Expense of the current accounting period in the P&L (- sign in the P&L)

**2. Over recovery of OH:** actual OH < allocated OH (means we actually spent less than budgeted)

- Reduction (in the expenses of the current accounting period in the P&L (+ sign in the P&L))

# 02

## Exercise 9

The Eletronics Company