

Management Accounting

Spring 2025
Practical class 3

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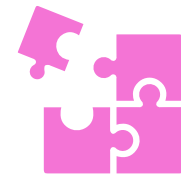


AGENDA



THEORETICAL RECAP

Costs Assignment
Traditional Costing system



CHAPTER 3

Problem 7 and 8

Theoretical Class Recap (or not)

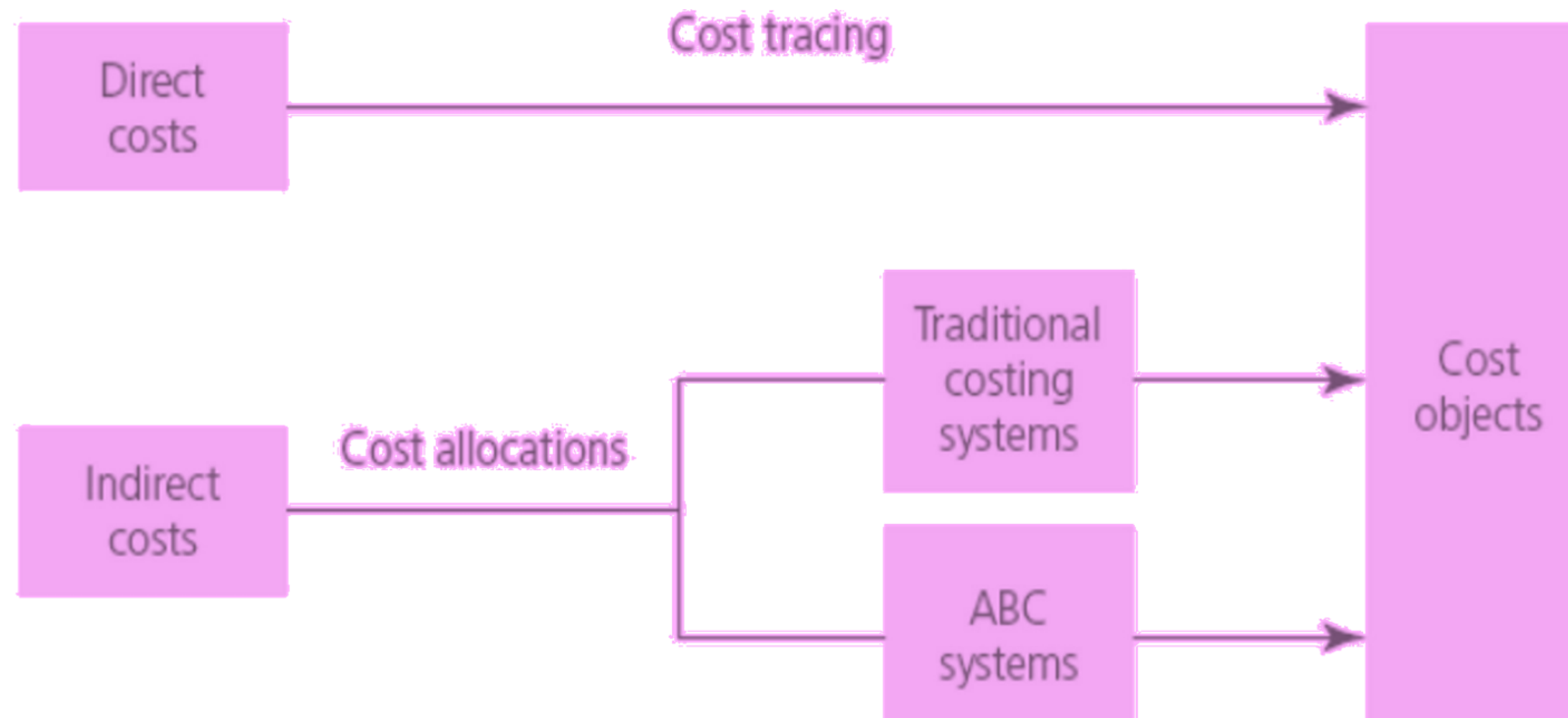
Cost Assignment

Direct Costs

-● Can be easily traced to a cost object (ex: DM and DL)

Indirect Costs

-● Cannot be traced to cost objects, they are assigned to a cost object using different cost allocations (involve allocation bases or cost drivers)



Theoretical Class Recap (or not)

Traditional Costing System

Single Overhead Rate (SOR)

-● Blanket rate used by the organization to assign every indirect cost (may make sense when resources are consumed proportionately in the entire organization)

$$\text{Single Overhead Rate (SOR)} = \frac{\text{Total Overheads costs}}{\text{Total Cost Driver}}$$

Multiple Overhead Rates (MOR)

-● Separate overhead rates (more than one), may make sense when resources are consumed differently across the organization

$$\text{Multiple Overhead Rate}_i \text{ (MOR)} = \frac{\text{Total Overheads costs}_i}{\text{Total Cost Driver}}$$

Theoretical Class Recap (or not)

Traditional Costing System

PROBLEM

-● We may have an yearly budget for the organization but overheads can fluctuate from month to month, meaning that we can either over or under estimate the amount of overheads we actually had

SOLUTION

-● **Under recovery of OH:** we estimated less overheads than we had actually ($\text{current OH} > \text{allocated OH}$), so we have occurred in a further expense of the current accounting period in the P&L
-● **Over recovery of OH:** we estimated more overheads than we had actually ($\text{current OH} < \text{allocated OH}$), so we have occurred in a reduction of expenses for the current accounting period in the P&L