

Management Accounting

Spring 2025
Practical class 5
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AGENDA



THEORETICAL RECAP

Traditional Costing System
Homogenous Cost Pool



CHAPTER 3 and 4

Problem 11

Theoretical Class Recap (or not)

Traditional Costing System

PROBLEM OF USING SOR

-● What should we do if a company has different products, different departments and the amount of the OH and of the allocation base vary by department?

SOLUTION

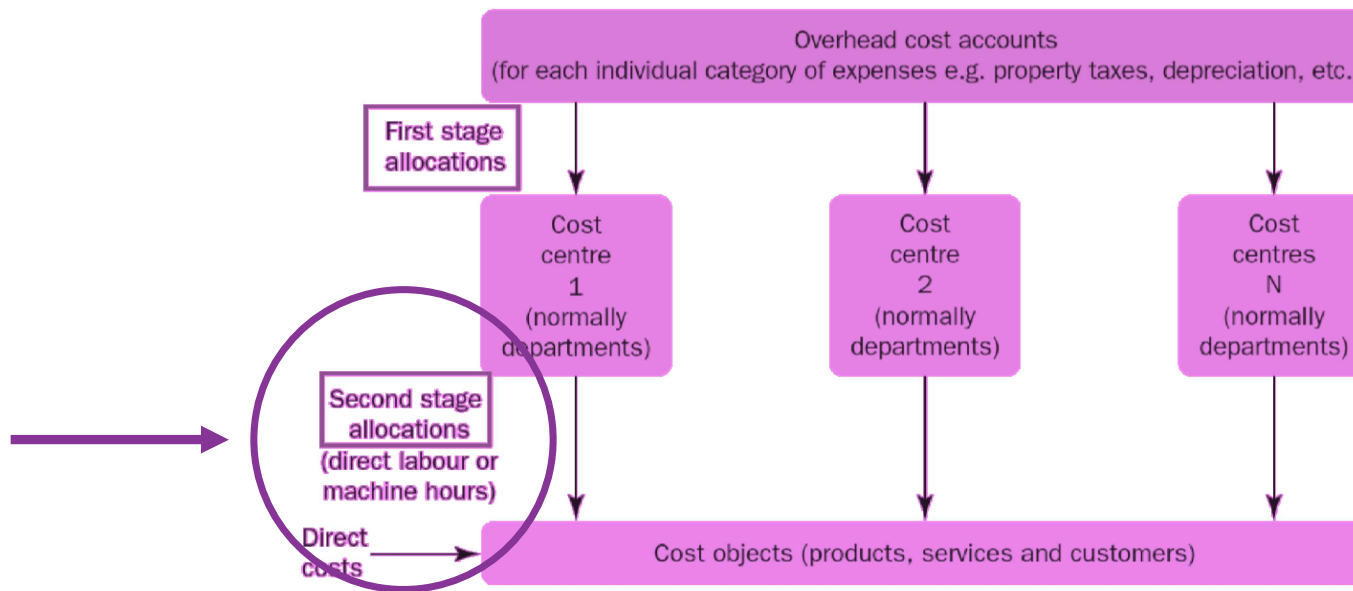


Theoretical Class Recap (or not)

Homogenous Cost Pool Method

THE 2 STAGE ALLOCATION PROCESS:

-● 1. Assign OH initially to cost centers/cost pools (usually departments);
-● 2. Allocating the cost center OH to cost objects (products) using these second stage allocation bases/cost drivers, but HOW?



Theoretical Class Recap (or not)

Homogenous Cost Pool Method

DIRECT ALLOCATION METHOD

-● Costs of the service cost centers reallocated only to production cost centers

SEQUENTIAL OR STEP-DOWN ALLOCATION METHOD

-● The service cost center that renders the highest percentage of its total service to other service cost centers is closed first, then the second

SIMULTANEOUS EQUATION METHOD

-● Allocates costs by explicitly including the mutual services provided among all services cost centers