COST ACCOUNTING
B.com (Prog.) Semester IV
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## * DISTRIBUTION OF SELLING & DISTRIBUTION OVERHEADS

Steps :

1. Classification & collection of overheads (same as factory overheads)
2. Departmentalisation of overheads
   - Allocation (same as factory overheads)
   - Apportionment

## * BASES OF APPORTIONMENT (S & D overheads)

| Expenses | Bases |
|---|---|
| (a) Advertisement & Sales promotion | Sales value |
| (b) Collection of overdue accounts | No. of orders |
| (c) Showroom expenses | Space used |
| (d) Insurance | value of stocks |
| (e) Transport | weight of product carried |

③ Absorption of overheads
- overhead absorption rate
- overhead absorbed (same as factory O/H)

THREE METHODS

1. A rate per unit of sales
2. A percentage of selling price
3. A percentage of works cost

1. A rate per unit of sales

$$\text{S\&D overhead rate} = \frac{\text{S \& D overheads}}{\text{Number of units sold}}$$

2. A percentage of selling price

$$\text{S\& D overhead rate} = \frac{\text{S\& D overheads}}{\text{Sales}} \times 100$$

3. A percentage of works cost

$$\text{S\&D overhead rate} = \frac{\text{S \& D overheads}}{\text{Works cost}} \times 100$$

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* Overheads rates may be determined either on the actual or predetermined basis.

Predetermined: This rate is determined in advance of the incurrence of the overhead expenditure.

Actual: The rate can be calculated only after the costs have been actually incurred.

* When actual rates are used, the overheads absorbed should be exactly equal to the overheads incurred. In such a case there is no problem of under or over-absorption of overheads.

* When a predetermined rate is employed, overheads absorbed may not be equal to the amount of actual overheads incurred.

* Thus, whenever the overheads absorbed are not equal to the amount of actual overheads, it is a case of either under-absorption or over-absorption of overheads.

* Often, management is interested in knowing the costs in advance for the purposes of determination of selling prices, accepting tenders etc.

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## * Over & under-absorption of overheads

Overheads absorbed < overheads actually incurred = under-absorption or under recovery
(Positive value) ⟶

Overheads absorbed > overheads actually incurred = over-absorption or over recovery
(Negative value) ⟶

## * Accounting treatment of under & over-absorption

⇓

3 methods

### (1) Carrying over of overheads to the next year

Under this method the under or over-absorbed amount is transferred to overhead reserve account or suspense account. This method can be usefully employed where normal business cycle extends over more than one year and overheads are determined on a long-term basis.

### (2) Transfer to costing profit and loss account

In case the difference between actual or absorbed overheads is not very large or the difference is due to abnormal circumstances, like machine breakdown, defective planning etc., such difference should be transferred to the costing P&L A/c.

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## (3) Use of supplementary rate

where the amount of under or over-absorbed overheads is quite large, a supplementary rate is calculated to adjust this amount in the cost.

Adjustment is made in the cost of :
(i) work-in-progress
(ii) finished stock
(iii) cost of sales

$$\text{Supplementary rate} = \frac{\text{Amount of over or under absorbed overheads}}{\text{Total cost / Actual base}}$$

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Factory overheads absorbed

Deptt. A → Rs. 1.5 × 14000 = 21000
B → Rs. 1.3 × 3000 = 3900
C → 80% of 6000 = 4800
D → Rs. 2 × 950 = 1900

Statement showing deptt.-wise under/over-absorption

| Deptt. | Actual overheads | Absorbed overheads | Under-absorption | Over-absorption |
|---|---|---|---|---|
| A | 19500 | 21000 | — | 1500 |
| B | 4500 | 3900 | 600 | — |
| C | 4000 | 4800 | — | 800 |
| D | 2500 | 1900 | 600 | — |
| TOTAL | 30500 | 31600 | 1200 | 2300 |

Net over-absorption = 1200 − 2300
= (1100)