Theory Q&A

Chp4 Overheads

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Theory Q&A

PYQ – 2023 May – Q6 b

(b) Explain what is meant by Practical capacity and Normal capacity. How is normal capacity determined?

(b) Meaning of Practical capacity and Normal capacity

Practical capacity is defined as actually utilised capacity of a plant. It is also known as operating capacity. This capacity takes into account loss of time due to repairs, maintenance, minor breakdown, idle time, set up time, normal delays, Sundays and holidays, stock taking etc. Generally, practical capacity is taken between 80 to 90% of the rated capacity. It is also used as a base for determining overhead rates. Practical capacity is also called net capacity or available capacity.

Normal capacity is the volume of production or services achieved or achievable on an average over a period under normal circumstances taking into account the reduction in capacity resulting from planned maintenance.

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Normal capacity is determined as under:

Installed capacity			xxx
Adjustments for:			
(i)	Time lost due to scheduled preventive or planned maintenance	xxx	
(ii)	Number of shifts or machine hours or man hours		
(iii)	Holidays, normal shut down days, normal idle time	xxx	
(iv)	Normal time lost in batch change over	xxx	xxx
Normal Capacity			**xxx**

PYQ – 2023 May – Q6 d

(d) *Suggest any one basis of re-apportionment of service department overheads over production departments in the following instances:*

Cost of Service Department	Basis
(i) Maintenance and Repair Shop	
(ii) Hospital and Dispensary	
(iii) Fire Protection	
(iv) Stores Department	
(v) Transport Department	
(vi) Computer Section	
(vii) Power House (Electric Power Cost)	
(viii) Inspection	
(ix) Tool Room	
(x) Time- keeping	

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(d) Basis of re-apportionment of service department overheads over production departments

Cost of the Service Departments:	Basis
(i) Maintenance and Repair shop	Direct labour hours, Machine hours, Direct labour wages, Asset value x Hours worked
(ii) Hospital and Dispensary	No. of employees, No. of direct workers etc.
(iii) Fire Protection	Capital values
(iv) Stores Department	No. of requisitions, Weight or value of Materials issued.
(v) Transport Department	Crane hours, Truck hours, Truck mileage, Truck tonnage, Truck ton- hours, Tonnage handled. No. of packages of Standard size
(vi) Computer Section	Computer hours, Specific allocation to departments

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(vii) Power House (Electric Power Cost)	Horse power, Kwh, Horse power × Machine hours, Kwh × Machine hours
(viii) Inspection	Inspection hours, number of inspections.
(ix) Tool room	Direct labour hours, Machine hours, Direct labour wages, Asset value x Hours worked
(x) Time-keeping	No. of card punched, No. of employees

PYQ – 2021 Jan – Q6 c

(c) Explain Blanket Overhead Rate and Departmental Overhead Rate. How they are calculated? State the conditions required for the application of Blanket Overhead Rate.

(c) Blanket Overhead Rate: Blanket overhead rate refers to the computation of one single overhead rate for the whole factory.

This overhead rate is computed as follows:

$$\text{Blanket Rate} = \frac{\text{Total overheads for the factory}}{\text{Total number of units of base for the factory}}$$

Departmental Overhead Rate: It refers to the computation of one single overhead rate for a particular production unit or department.

This overhead rate is determined by the following formula:

$$\text{Departmental overhead Rate} = \frac{\text{Overheads of department or cost centre}}{\text{Corresponding base}}$$

PYQ – 2021 Jan – Q6 c

Conditions required for the Application of Blanket Overhead:

A blanket rate should be applied in the following cases:

(1) Where only one major product is being produced.

(2) Where several products are produced, but

  (a) All products pass through all departments; and

  (b) All products are processed for the same length of time in each department.

PYQ – 2018 Nov – Q6 c

(c) State the bases of apportionment of following overhead costs:

(i) Air-conditioning

(ii) Time keeping

(iii) Depreciation of plant and machinery

(iv) Power/steam consumption

(v) Electric power (Machine operation)

PYQ – 2018 Nov – Q6 c

(c)

Overhead Cost	Bases of Apportionment
(i) Air- conditioning	Floor area, or volume of department
(ii) Time keeping	Number of workers
(iii) Depreciation of plant and machinery	Capital values
(iv) Power/steam consumption	Technical estimates
(v) Electric power (machine operation)	Horse power of machines, or Number of machine hour, or value of machines or units consumed. Kilo-watt hours.

MTP – 2018 Oct – Q6 d

(d) EXPLAIN the difference between Allocation and Apportionment of expenses.

(d) The difference between the allocation and apportionment is important to understand because the purpose of these two methods is the identification of the items of cost to cost units or centers. However, the main difference between the above methods is given below.

(1) Allocation deals with the whole items of cost, which are identifiable with any one department. For example, indirect wages of three departments are separately obtained and hence each department will be charged by the respective amount of wages individually.

On the other hand, apportionment deals with the proportions of an item of cost for example; the cost of the benefit of a service department will be divided between those departments which has availed those benefits.

(2) Allocation is a direct process of charging expenses to different cost centres whereas apportionment is an indirect process because there is a need for the identification of the appropriate portion of an expense to be borne by the different departments benefited.

(3) The allocation or apportionment of an expense is not dependent on its nature, but the relationship between the expense and the cost centre decides that whether it is to be allocated or apportioned.

(4) Allocation is a much wider term than apportionment.

MTP – 2018 Mar – Q6 b

(b) EXPLAIN Single and Multiple Overhead Rates.

(b) Single and Multiple Overhead Rates:

Single overhead rate: It is one single overhead absorption rate for the whole factory.

It may be computed as follows:

$$\text{Single overhead rate} = \frac{\text{Overhead costs for the entire factory}}{\text{Total quantity of the base selected}}$$

The base can be total output, total labour hours, total machine hours, etc.

The single overhead rate may be applied in factories which produces only one major product on a continuous basis. It may also be used in factories where the work performed in each department is fairly uniform and standardized.

MTP – 2018 Mar – Q6 b

Multiple overhead rate: It involves computation of separate rates for each production department, service department, cost center and each product for both fixed and variable overheads. It may be computed as follows:

$$\text{Multiple overhead rate} = \frac{\text{Overhead allocated / appportioned to each department/ cost centre or product}}{\text{Corresponding base}}$$

Under multiple overheads rate, jobs or products are charged with varying amount of factory overheads depending on the type and number of departments through which they pass. However, the number of overheads rate which a firm may compute would depend upon two opposing factors viz. the degree of accuracy desired and the clerical cost involved.