



**VISION INSTITUTE OF TECHNOLOGY,  
SUBJECT: COST ACCOUNTING  
UNIT 3: OVERHEADS COST**

**Unit III**

**Overheads:** Meaning & Classification of overheads – Treatment of specific items of overheads in cost accounts – Stages involved in distribution of overheads – Methods of absorption of overheads – Treatment of under and over absorption of overheads.

**OUTCOMES:**

**1. Overheads Overview:**

- Definition: Indirect costs in production.
- Types: Production, administration, selling, and research overheads.

**2. Cost Accounts Treatment:**

- Allocation to relevant cost centres.
- Accurate recording and classification.

**3. Distribution Stages:**

- Identification, allocation, and apportionment.

**4. Absorption Methods:**

- Absorption costing and activity-based costing.
- Rates calculated using factors like machine hours or units produced.

**5. Under/Over Absorption:**

- Under: Actual overheads > Absorbed overheads.
- Over: Absorbed overheads > Actual overheads.
- Impacts product costs and may require adjustments.





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4. **Research Overheads:** These are costs associated with research and development activities. Examples include salaries of research staff, laboratory equipment, materials for experiments, and research facility rent.

❖ **Cost Accounts Treatment:**

Cost accounts play a crucial role in managerial accounting by providing detailed information about the costs associated with various activities, products, or services within an organization. The treatment of cost accounts typically involves two key aspects: allocation to relevant cost centres and accurate recording and classification.

➤ **Allocation to Relevant Cost Centres:**

- Cost centres are specific departments, units, or functions within an organization where costs are accumulated and monitored. These can include production departments, service departments, or even specific projects.
- The allocation of costs to relevant cost centres ensures that each department bears its fair share of the expenses incurred in generating revenue or providing services.
- Costs may be allocated based on various allocation bases, such as direct labor hours, machine hours, square footage, or activity-based costing (ABC) methods.
- Proper allocation helps in better cost control, performance evaluation, and decision-making within each cost centre.

➤ **Accurate Recording and Classification:**

- Accurate recording involves capturing all relevant costs incurred by the organization and recording them in the appropriate accounts.
- Costs are classified based on their nature, function, behaviour, or traceability to cost objects (such as products, services, or activities).
- Common classifications include direct costs (e.g., direct materials, direct labour) and indirect costs (e.g., overhead costs, administrative costs).
- Accurate classification ensures that costs are properly matched with the revenues they help generate, facilitating the calculation of profitability and the identification of areas for cost reduction or improvement.
- Additionally, costs may be classified as fixed costs (remain constant irrespective of production or activity levels) or variable costs (change in proportion to production or activity levels), which aids in cost-volume-profit analysis and decision-making.



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❖ **Stages involved in distribution of overheads**

The distribution of overheads involves allocating indirect costs to products, services, or departments within an organization. Overheads, also known as indirect costs, are expenses that cannot be directly traced to a specific product or service. Instead, they support the overall operations of the business. The process of distributing overheads typically consists of several stages:

1. **Identification of Overheads:** Identify and classify all indirect costs incurred by the organization. These can include rent, utilities, depreciation, indirect labor, maintenance, and administrative costs.
2. **Cost Centres or Departments:** Divide the organization into cost centers or departments. Each department is a unit that incurs overhead costs. Common departments include production, administration, and service departments.
3. **Collection of Overhead Costs:** Gather information on the total indirect costs incurred by each cost centre or department. This information is usually obtained from the organization's accounting records.
4. **Allocation of Direct Costs:** Allocate any direct costs that can be specifically traced to a particular cost centre. These costs are not considered overheads but are part of the overall cost distribution process.
5. **Basis of Allocation:** Determine the basis for allocating indirect costs to cost centers. Common allocation bases include machine hours, labor hours, square footage, or production volume. The choice of allocation base depends on the nature of the business and the most appropriate method for assigning costs.
6. **Calculation of Overhead Rates:** Calculate overhead rates for each cost center by dividing the total indirect costs by the chosen allocation base. For example, if the total indirect costs for the production department are \$100,000 and the allocation base is machine hours, and there are 10,000 machine hours, the overhead rate would be \$10 per machine hour.
7. **Allocation of Overhead Costs:** Allocate overhead costs to each cost center based on the predetermined overhead rates. This involves multiplying the actual usage of the allocation base by the overhead rate.
8. **Absorption of Overhead into Products or Services:** Distribute overhead costs from each cost center to the products, services, or units produced or delivered by that



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cost center. This is done by multiplying the overhead rate by the actual usage of the allocation base for each product or service.

9. **Adjustment for under or over applied Overhead:** Compare the total overhead costs allocated with the actual overhead costs incurred. If there is a difference, adjust the overhead rates or make corrections to ensure accurate distribution. This adjustment is necessary to prevent over applied or under applied overhead.
10. **Reporting and Analysis:** Prepare financial reports that reflect the distribution of overhead costs. Analyze the impact of overhead allocation on the cost of products or services and make informed business decisions based on this information.

#### ❖ Methods of absorption of overheads.

Absorption of overheads refers to the process of allocating and apportioning indirect costs or overhead costs to the products or services produced by a business. This helps in determining the total cost of production and setting appropriate prices for products. There are various methods of absorbing overheads, and the choice of method depends on the nature of the industry and the type of overhead costs involved. Here are some common methods:

##### 1. Percentage of Direct Wages or Direct Labor Cost:

- Overheads are absorbed based on a predetermined percentage of the direct wages or direct labor cost.
- **Formula: Overhead Absorption = (Predetermined percentage \* Direct wages)**

##### 2. Percentage of Direct Materials Cost:

- Overheads are absorbed based on a predetermined percentage of the direct materials cost.
- **Formula: Overhead Absorption = (Predetermined percentage \* Direct materials cost)**

##### 3. Machine Hour Rate:

- Overheads are absorbed based on the machine hours utilized in the production process.
- **Formula: Overhead Absorption = (Machine hours used \* Predetermined overhead rate per machine hour)**



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**4. Labor Hour Rate:**

- Overheads are absorbed based on the actual labor hours worked in the production process.
- **Formula: Overhead Absorption = (Labor hours worked \* Predetermined overhead rate per labor hour)**

**5. Production Unit Rate:**

- Overheads are absorbed by allocating a fixed amount of overhead cost to each unit produced.
- **Formula: Overhead Absorption = (Total overhead cost / Number of units produced)**

**6. Activity-Based Costing (ABC):**

- Overheads are absorbed based on the specific activities that drive the costs. This method is more sophisticated and involves identifying various cost drivers and allocating overhead costs accordingly.

**7. Direct Labor Hours:**

- Overheads are absorbed based on the actual or estimated number of direct labor hours worked.
- **Formula: Overhead Absorption = (Direct labor hours \* Predetermined overhead rate per labor hour)**

**8. Direct Labor Cost Percentage:**

- Overheads are absorbed based on a predetermined percentage of the direct labor cost.
- **Formula: Overhead Absorption = (Predetermined percentage \* Direct labor cost)**

**❖ Under/Over Absorption:**

Under/Over Absorption refers to the situation where the actual overhead costs incurred by a business differ from the overhead costs absorbed or allocated to products based on a predetermined overhead absorption rate. This rate is typically calculated by dividing the total budgeted overhead costs by a chosen allocation base, such as labor hours or machine hours.



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➤ **Under Absorption:**

- **Definition:** Occurs when the actual overhead costs are greater than the overhead costs absorbed or allocated to products.
- **Formula: Under Absorption = Actual Overheads - Absorbed Overheads**
- **Impact on Product Costs:** If overhead costs are under-absorbed, it means that the products have been allocated fewer overhead costs than actually incurred. This may result in understated product costs.
- **Adjustments:** To address under-absorption, adjustments may be necessary to increase the cost of goods sold (COGS) or adjust inventory values upwards.

➤ **Over Absorption:**

- **Definition:** Occurs when the actual overhead costs are less than the overhead costs absorbed or allocated to products.
- **Formula:** Over Absorption = Absorbed Overheads - Actual Overheads
- **Impact on Product Costs:** If overhead costs are over-absorbed, it means that the products have been allocated more overhead costs than actually incurred. This may result in overstated product costs.
- **Adjustments:** To address over-absorption, adjustments may be necessary to decrease the cost of goods sold (COGS) or adjust inventory values downwards.

➤ **Importance of Adjustments:**

- **Profit Accuracy:** Failure to adjust for under/over absorption can lead to inaccurate profit calculations.
- **Decision Making:** Misleading cost information may impact decision-making processes, such as pricing and production planning.
- **Financial Reporting:** Adjustments are essential for accurate financial reporting and to reflect the true cost of goods sold.



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❖ **MULTIPLE CHOICE QUESTIONS**

**Q1. What are overheads in the context of business expenses?**

- A) Direct costs traceable to a specific product
- B) Indirect costs not directly attributable to a specific product or service
- C) Only the costs of raw materials used in production
- D) Profits from sales of products or services

**Answer: B**

**Q2. Which of the following is an example of production overhead?**

- A) Direct labor wages
- B) Raw material costs
- C) Factory rent
- D) Sales commissions

**Answer: C**

**Q3. Administration overheads include:**

- A) Sales office rent
- B) Production machinery depreciation
- C) Salaries of administrative staff
- D) Direct material costs

**Answer: C**

**Q4. Selling overheads would most likely include:**

- A) Factory maintenance costs
- B) Research facility rent
- C) Marketing materials
- D) Office utilities

**Answer: C**

**Q5. Research overheads consist of costs related to:**

- A) Production efficiency improvement
- B) Market analysis for sales improvement
- C) New product development activities
- D) Managing the company's finances

**Answer: C**

**Q6. What is the primary role of cost accounts in managerial accounting?**

- A) To calculate direct labor wages only
- B) To provide detailed information on various costs
- C) To record profits from sales exclusively
- D) To track sales commissions

**Answer: B**





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**Q7. A cost centre is defined as:**

- A) A center that generates the highest cost
- B) A department or unit where costs are accumulated and monitored
- C) A center responsible for cost reduction only
- D) The central accounting department

**Answer: B**

**Q8. Costs may be allocated based on:**

- A) Sales volume only
- B) Direct labor hours, machine hours, or activity-based costing methods
- C) The number of employees in each department
- D) The profitability of products

**Answer: B**

**Q9. Accurate cost classification is important for:**

- A) Calculating sales commissions only
- B) Matching costs with the revenues they help generate
- C) Deciding on employee bonuses
- D) Tracking direct labor hours

**Answer: B**

**Q10. Fixed costs are best described as:**

- A) Costs that vary with production volume
- B) Costs that remain constant irrespective of production levels
- C) Costs directly traceable to products
- D) Indirect costs like utilities and rent

**Answer: B**

**Q11. The first stage in the distribution of overheads involves:**

- A) Allocating direct costs
- B) Identifying and classifying all indirect costs
- C) Choosing the allocation base
- D) Calculating sales volume

**Answer: B**

**Q12. Overhead costs are allocated to cost centers based on:**

- A) A random selection method
- B) The highest cost producer
- C) A predetermined basis like machine hours or labor hours
- D) The number of employees

**Answer: C**



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**Q13. An overhead rate is calculated by:**

- A) Dividing total indirect costs by direct labor hours
- B) Multiplying total sales by direct costs
- C) Dividing total indirect costs by the chosen allocation base
- D) Adding direct and indirect costs

**Answer: C**

**Q14. When adjusting for under or over-applied overhead, the goal is to:**

- A) Increase profits
- B) Decrease sales volume
- C) Ensure accurate distribution of costs
- D) Allocate all costs to administration

**Answer: C**

**Q15. The allocation of direct costs in the overhead distribution process is done:**

- A) At the end of the fiscal year
- B) Before calculating the overhead rates
- C) After all indirect costs have been allocated
- D) To correct errors in sales commissions

**Answer: B**

**Q16. Which is NOT a typical basis for allocating overhead costs?**

- A) Customer satisfaction ratings
- B) Machine hours
- C) Labor hours
- D) Square footage

**Answer: A**

**Q17. Variable costs are:**

- A) Unaffected by production or activity levels
- B) Always indirect costs
- C) Costs that change in proportion to production or activity levels
- D) Solely composed of direct materials

**Answer: C**

**Q18. The process of absorbing overhead into products or services involves:**

- A) Ignoring indirect costs
- B) Directly attributing all costs to products
- C) Multiplying the overhead rate by the actual usage of the allocation base for each product
- D) Allocating all costs as fixed

**Answer: C**



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**Q19. An example of an administrative overhead is:**

- A) Depreciation of production equipment
- B) Cost of raw materials
- C) Office rent
- D) Direct labor costs

**Answer: C**

**Q20. Which of the following is a characteristic of fixed costs?**

- A) They increase with the decrease in production volume
- B) They remain constant irrespective of changes in activity level
- C) They are direct costs related to production
- D) They are exclusively related to production activities

**Answer: B**

**Q21. The main purpose of classifying costs is to:**

- A) Simplify payroll processing
- B) Facilitate profitability calculation and cost control
- C) Increase sales volume
- D) Reduce the number of employees

**Answer: B**

**Q22. Cost allocation helps in:**

- A) Only increasing the product price
- B) Reducing the total costs incurred by the business
- C) Better cost control and decision-making
- D) Eliminating the need for cost centers

**Answer: C**

**Q23. A department that incurs both direct and indirect costs is:**

- A) Exempt from cost allocation procedures
- B) Considered only for direct cost analysis
- C) Still subject to overhead allocation and absorption
- D) Only involved in administrative functions

**Answer: C**

**Q24. Activity-based costing (ABC) is used to:**

- A) Allocate costs based solely on production volume
- B) Ignore indirect costs in product pricing
- C) Allocate overheads more accurately to products or services
- D) Simplify the cost allocation process by using a single cost driver

**Answer: C**



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**Q25. The final step in the distribution of overheads is:**

- A) Calculation of overhead rates
- B) Allocation of direct costs
- C) Reporting and analysis of the impact of overhead allocation
- D) Identification of overheads

**Answer: C**

**Q26. Which of the following is a key reason for allocating overhead costs to products or services?**

- A) To increase the direct labor costs
- B) To reduce the number of products offered
- C) To accurately determine the cost of products or services
- D) To focus solely on production overheads

**Answer: C**

**Q27. Indirect labor costs are classified under which type of overhead?**

- A) Selling overheads
- B) Production overheads
- C) Administration overheads
- D) Research overheads

**Answer: B**

**Q28. Office supplies for the marketing department would typically be classified as:**

- A) Production overhead
- B) Selling overhead
- C) Administration overhead
- D) Research overhead

**Answer: B**

**Q29. The basis of allocation chosen for distributing overhead costs should be:**

- A) The easiest to calculate
- B) Relevant to the costs being allocated
- C) The same for every department, regardless of their function
- D) Based solely on the preference of the management

**Answer: B**

**Q30. The primary difference between fixed and variable costs is:**

- A) Fixed costs are always indirect, while variable costs are direct
- B) Variable costs cannot be allocated to products, whereas fixed costs can
- C) Fixed costs do not change with activity level, while variable costs do
- D) Variable costs are more significant in amount than fixed costs

**Answer: C**



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**Q31. The adjustment for under or over-applied overhead ensures that:**

- A) The company's profit is maximized
- B) The selling price of products can be increased
- C) Overhead costs accurately reflect actual expenses
- D) Employees receive higher bonuses

**Answer: C**

**Q32. When overhead costs are allocated based on machine hours, this implies that:**

- A) Machine hours are a significant driver of overhead costs in the business
- B) Direct labor hours are irrelevant to cost calculations
- C) All products require the same amount of machine time
- D) The company does not incur any fixed costs

**Answer: A**

**Q33. Which of the following is true about activity-based costing (ABC)?**

- A) ABC simplifies overhead allocation by using fewer cost pools
- B) ABC can lead to more accurate product costing by using multiple cost drivers
- C) ABC primarily focuses on reducing variable costs
- D) ABC is less accurate than traditional costing methods in all scenarios

**Answer: B**

**Q34. Research and development costs are classified under which category of overhead?**

- A) Fixed overheads
- B) Variable overheads
- C) Research overheads
- D) Administration overheads

**Answer: C**

**Q35. The process of distributing overhead costs to products or services is essential for:**

- A) Only determining the company's overall profitability
- B) Calculating accurate product costs and facilitating strategic pricing decisions
- C) Ensuring that all products are equally profitable
- D) Reducing the total overhead costs incurred by the company

**Answer: B**

**Q36. A company has budgeted production overhead costs of \$120,000 and expects to operate machinery for 20,000 hours over the next year. What is the budgeted overhead rate per machine hour?**

- A) \$0.60
- B) \$6.00
- C) \$60.00
- D) \$600.00

**Answer: B**



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**Q37. If a production department incurs \$50,000 in direct labor costs, \$70,000 in direct material costs, and is allocated \$40,000 in overhead costs, what is the total cost of production?**

- A) \$110,000
- B) \$160,000
- C) \$120,000
- D) \$90,000

**Answer: B**

**Q38. A factory operates 10,000 machine hours in a month and incurs \$200,000 in production overheads. What is the actual overhead rate per machine hour for that month?**

- A) \$20.00
- B) \$2.00
- C) \$200.00
- D) \$20,000.00

**Answer: A**

**Q39. An organization applies overheads on the basis of direct labor hours. If the overhead rate is \$15 per labor hour and a job required 120 labor hours, how much overheads are allocated to the job?**

- A) \$1,800
- B) \$1,200
- C) \$180
- D) \$15

**Answer: A**

**Q40. During a financial year, a company estimated its administration overheads to be \$100,000. If the actual overheads incurred were \$95,000, what is the amount of under or over-applied overheads?**

- A) \$5,000 under-applied
- B) \$5,000 over-applied
- C) \$10,000 under-applied
- D) \$10,000 over-applied

**Answer: B**

**Q41. A manufacturing company bases its overhead allocation on direct material costs. If a product uses \$4,000 in materials and the overhead rate is 75% of material costs, what amount of overhead is allocated to this product?**

- A) \$3,000
- B) \$1,000
- C) \$4,000
- D) \$5,000

**Answer: A**



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**Q42. A business has an overhead absorption rate of \$25 per direct labor hour. If a particular order takes 400 hours to complete, how much overhead will be absorbed by this order?**

- A) \$10,000
- B) \$25,000
- C) \$1,000
- D) \$4,000

**Answer: A**

**Q43. If a department's overhead rate is based on square footage and the rate is \$5 per square foot, how much overhead is allocated to a department occupying 2,000 square feet?**

- A) \$2,000
- B) \$10,000
- C) \$5,000
- D) \$1,000

**Answer: B**

**Q44. A company's selling overheads are allocated based on sales value. If the overhead allocation rate is 2% and a product's sales are \$150,000, how much selling overhead is allocated to this product?**

- A) \$3,000
- B) \$30,000
- C) \$300
- D) \$3,500

**Answer: A**

**Q45. The total indirect costs for a company were \$250,000, and the total cost driver activity levels were 50,000 units. What is the overhead rate per unit of activity?**

- A) \$5 per unit
- B) \$50 per unit
- C) \$0.50 per unit
- D) \$500 per unit

**Answer: A**

**Q46. What does the absorption of overheads refer to?**

- A) Direct allocation of all costs to products
- B) Allocating and apportioning indirect costs to products
- C) Directly attributing marketing costs to each unit sold
- D) Ignoring overhead costs in product pricing

**Answer: B**



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**Q47. Which method absorbs overheads based on a predetermined percentage of direct wages?**

- A) Machine Hour Rate
- B) Percentage of Direct Wages
- C) Activity-Based Costing
- D) Production Unit Rate

**Answer: B**

**Q48. How is the overhead absorption rate calculated in the Machine Hour Rate method?**

- A) Total overhead cost / Number of units produced
- B) Machine hours used \* Predetermined overhead rate per machine hour
- C) Direct labor hours \* Predetermined overhead rate per labor hour
- D) Total overhead cost / Total machine hours

**Answer: D**

**Q49. Which method of overhead absorption is based on the actual labor hours worked?**

- A) Labor Hour Rate
- B) Direct Materials Cost Percentage
- C) Production Unit Rate
- D) Direct Labor Cost Percentage

**Answer: A**

**Q50. What is under-absorption of overheads?**

- A) When actual overheads are less than absorbed overheads
- B) When actual overheads are equal to absorbed overheads
- C) When actual overheads are greater than absorbed overheads
- D) A predetermined rate of overhead absorption

**Answer: C**

**Q51. What is the formula for calculating under-absorption of overheads?**

- A) Absorbed Overheads - Actual Overheads
- B) Actual Overheads - Absorbed Overheads
- C) Total Overheads / Actual Overheads
- D) Actual Overheads / Absorbed Overheads

**Answer: B**

**Q52. What could be the impact of under-absorption on product costs?**

- A) Overstated product costs
- B) Understated product costs
- C) Unchanged product costs
- D) Reduced variable costs

**Answer: B**





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**Q53. Which method of overhead absorption uses a fixed amount of overhead cost per unit produced?**

- A) Percentage of Direct Materials Cost
- B) Labor Hour Rate
- C) Production Unit Rate
- D) Machine Hour Rate

**Answer: C**

**Q54. Activity-Based Costing (ABC) differs from traditional methods by:**

- A) Ignoring overhead costs
- B) Allocating overheads based on direct labor only
- C) Allocating overheads based on activities that drive costs
- D) Using a single overhead rate for all products

**Answer: C**

**Q55. Which of the following is true about over-absorption of overheads?**

- A) It indicates that actual overhead costs are greater than absorbed costs.
- B) It occurs when absorbed overheads are less than actual overheads.
- C) It means products have been allocated fewer overhead costs than incurred.
- D) It occurs when absorbed overheads exceed actual overheads.

**Answer: D**

**Q56. How are overhead costs allocated in the Direct Labor Hour method?**

- A) Based on the machine hours used
- B) Based on the number of units produced
- C) Based on the actual or estimated number of direct labor hours worked
- D) Based on the total cost of direct materials

**Answer: C**

**Q57. Which method calculates overhead absorption as a predetermined percentage of direct materials cost?**

- A) Percentage of Direct Materials Cost
- B) Machine Hour Rate
- C) Labor Hour Rate
- D) Direct Labor Cost Percentage

**Answer: A**

**Q58. What does over-absorption indicate about product costs?**

- A) Product costs are accurately stated.
- B) Product costs are understated.
- C) Product costs are overstated.
- D) Product costs are unaffected.

**Answer: C**



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**Q59. Why are adjustments necessary for under/over absorption?**

- A) To ensure all products have equal overhead costs
- B) To avoid paying taxes on profits
- C) To accurately reflect the cost of goods sold and profit accuracy
- D) To increase inventory turnover

**Answer: C**

**Q60. Which overhead absorption method would be most suitable for a highly automated manufacturing process?**

- A) Percentage of Direct Wages
- B) Machine Hour Rate
- C) Labor Hour Rate
- D) Direct Materials Cost Percentage

**Answer: B**

**Q61. The Production Unit Rate method is best described as:**

- A) Allocating overhead based on direct labor hours
- B) Allocating a fixed overhead cost to each unit produced
- C) Absorbing overhead based on machine hours used
- D) Using activity levels to allocate overhead costs

**Answer: B**

**Q62. What is the primary focus of Activity-Based Costing (ABC)?**

- A) To reduce the total overhead costs
- B) To allocate overheads based on direct labor hours only
- C) To identify and allocate overhead costs based on cost drivers
- D) To apply a uniform overhead rate across all products

**Answer: C**

**Q63. Under-absorption of overheads may require adjustments such as:**

- A) Decreasing the cost of goods sold (COGS)
- B) Increasing the cost of goods sold (COGS)
- C) Ignoring any discrepancies for simplicity
- D) Applying a flat rate adjustment across all products

**Answer: B**

**Q64. In the context of overhead absorption, what role does the predetermined overhead rate play?**

- A) It is the actual overhead cost incurred
- B) It helps in valuing the inventory at the end of the period
- C) It is used to estimate and allocate overhead costs to products
- D) It determines the direct cost of materials

**Answer: C**



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**Q65. The Direct Labor Cost Percentage method allocates overhead based on:**

- A) A predetermined percentage of direct materials cost
- B) The number of units produced
- C) A predetermined percentage of direct labor cost
- D) The machine hours utilized

**Answer: C**

**Q66. Which scenario would most likely result in over-absorption of overheads?**

- A) Higher than anticipated machine hours used
- B) Lower actual overhead costs than estimated
- C) Increased direct labor hours
- D) A significant rise in direct material costs

**Answer: B**

**Q67. How does the choice of overhead absorption method affect financial reporting?**

- A) It has no impact on financial reporting
- B) It determines the profitability of the company
- C) It affects the accuracy of product cost and profit calculations
- D) It influences the company's market share

**Answer: C**

**Q68. What impact does over-absorption have on inventory values?**

- A) Increases inventory values
- B) Decreases inventory values
- C) Has no impact on inventory values
- D) Fluctuates inventory values unpredictably

**Answer: A**

**Q69. The Machine Hour Rate method is particularly useful in environments where:**

- A) Labor is the significant cost driver
- B) Material costs dominate the production cost
- C) Machines play a crucial role in production
- D) Products are highly customized

**Answer: C**

**Q70. Adjustments for under/over absorption are essential for:**

- A) Only internal decision-making processes
- B) Only external financial reporting
- C) Both accurate financial reporting and decision making
- D) Marketing strategies only

**Answer: C**



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**Q71.** A company has a total overhead cost of \$100,000 and direct wages of \$200,000. If it uses the Percentage of Direct Wages method at a predetermined rate of 50%, what will be the overhead absorbed?

- A) \$50,000
- B) \$100,000
- C) \$150,000
- D) \$200,000

**Answer: B**

**Q72.** Using the Machine Hour Rate method, if the predetermined overhead rate is \$10 per machine hour and 8,000 machine hours were used, what is the total overhead absorbed?

- A) \$80,000
- B) \$8,000
- C) \$800
- D) \$800,000

**Answer: A**

**Q73.** If a company applies the Labor Hour Rate method with a rate of \$15 per labor hour and the actual labor hours worked were 6,000, what would be the absorbed overheads?

- A) \$90,000
- B) \$9,000
- C) \$900
- D) \$60,000

**Answer: A**

**Q74.** For the Production Unit Rate method, if a company's total overhead cost is \$50,000 and it produced 10,000 units, what is the overhead cost per unit?

- A) \$5
- B) \$0.50
- C) \$5,000
- D) \$0.05

**Answer: A**

**Q75.** Using Activity-Based Costing, if overheads allocated to a cost pool for machine setups are \$20,000 and there are 400 setups, what is the overhead cost per setup?

- A) \$50
- B) \$500
- C) \$5
- D) \$50,000

**Answer: A**



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**Q76. A company has actual overheads of \$120,000 but based on its absorption method, it absorbed \$115,000. What is the under/over absorption?**

- A) Under-absorbed by \$5,000
- B) Over-absorbed by \$5,000
- C) Under-absorbed by \$120,000
- D) Over-absorbed by \$120,000

**Answer: A**

**Q77. If a company's predetermined overhead rate based on direct labor cost is 75% and the actual direct labor cost is \$80,000, what amount of overheads is absorbed?**

- A) \$60,000
- B) \$120,000
- C) \$80,000
- D) \$40,000

**Answer: A**

**Q78. A manufacturing process requires 2,500 machine hours at a machine hour rate of \$20. What total overhead cost is absorbed by this method?**

- A) \$50,000
- B) \$5,000
- C) \$500
- D) \$50

**Answer: A**

**Q79. If the direct materials cost is \$200,000 and the predetermined percentage for absorbing overheads is 25%, what is the total absorbed overhead?**

- A) \$50,000
- B) \$25,000
- C) \$75,000
- D) \$100,000

**Answer: A**

**Q80. A business has over-absorption of overheads by \$10,000. If the actual overheads were \$200,000, what was the total amount of overheads absorbed?**

- A) \$190,000
- B) \$210,000
- C) \$200,000
- D) \$220,000

**Answer: B**