

Manufacturing overhead

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Manufacturing Overhead al affiliation Answer 1a Manufacturing overheads are all manufacturing costs other than direct materials, direct labor and direct machine costs which are no directly traceable to individual items during the period of manufacturing. They consist of many different items ranging from grease used in machines to the annual salary of production manager. Examples which would be included in manufacturing overhead are; Salaries for production supervisors, Operating costs of the new QC system, and Salaries for production supervisors.

Answer 1b

Predetermined overhead rates are the estimated total manufacturing overhead cost per estimated total units in the allocation base. They are used to apply overhead cost throughout the production period. The main reasons why a company would develop predetermined overhead rates would be that; the manager would like to know the accounting system's valuation of completed jobs before the end of the accounting period. Predetermined overhead rates simplify the organizations record keeping by just simple circulations.

Overhead cost = Direct Labor Hours recorded for the job * Predetermined Overhead rate

Answer 2

Even though an increase in overhead rates leads to lower profits, the introduction of automated QA system replaces the QC inspectors which represent the direct labor. Overhead increases and the direct labor decreases. This leads to an increase in the predetermined overhead rate mainly if it is based on direct labor.

Answer 3

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The company should use the strategy of computing Breakeven when using activity based costing (ABC). This requires the managers to understand the nature of the fixed costs and product level costs.

Answer 4

Activity Based Costing (ABC) is a powerful decision making tool which is generally used for understanding products, customer costs and profitability based production process. ABC was started in the year 1980s due to the increasing relevance of the traditional cost accounting method. This methodology of ABC if deployed in Borealis Company it will enable the manager to identify the organizations activity with resources to all products and services according to their actual consumption. It assigns more indirect costs to direct costs compared to the convectional costing methods. Borealis organization will have the benefit of more accurate decision making techniques. The manager will be able to decisively estimate the cost elements of all the organization's products and services and eliminating those products and services that are less profitable and lower the price of those products that are overpriced. Good production strategies can easily evaluated in calculations. The use of the QC system in the organization can easily be analyzed and the manager will have a strong base on deciding if QC system was the right idea in the production process compared to the 10 QC inspectors. The company will not only benefit in the production stages but also in determining products price and the right distribution channels for their finished products. Activity Based Costing utilizes cost rather than just total cost. The company doesn't have to wait until the end of the year to compute their costs. Costing of processes, supply chains, and value streams will be analyzed systematically in the production cycle.

Reference

Jackson R. Steven, Roby B. Sawyers, J. Gregory Jenkins. (2009). Managerial Accounting: A Focus on Ethical Decision. United States of America: Library of Congress.