**QUESTION 8**

**Over-Head**

**Apportionment**

**Break down of previous year questions**

**2019 Overhead apportionment** and Job Costing

**2016** **Overhead apportionment** and Job Costing

**2012** **Overhead apportionment**

**2009** **Overhead apportionment** and Job Costing

**Past Questions**

2019

(e) (i) Explain why it is necessary to transfer service department overheads to

production departments. (6 marks)

(ii) Distinguish between the allocation, apportionment and absorption of costs

 (6 Marks)

2016

(e) (i) Explain what is meant by reapportionment of overheads.

(ii) Name three overhead absorption rates and state why they are based on budgeted figures. (10 Marks)

2012

1. (iv) Explain why it is necessary to transfer Service Department costs to

Production Departments 1 and 2. (5 Marks)

2009

1. (i) Explain what is meant by a step fixed cost and give an example.

(6 Marks)

(ii) Outline two differences in focus between Management and Financial

accounting.

 (6 Marks)

**2019**

**Question**

(e) (i) Explain why it is necessary to transfer service department overheads to

production departments. (6 marks)

(ii) Distinguish between the allocation, apportionment and absorption of costs

 (6 Marks)

**Answer**

**(e) (i) Explain why it is necessary to transfer service department overheads to**

**production departments.**

1. Service departments cannot recover costs because no production takes

place in these departments.

1. Service departments are secondary to production departments and as a

result, service department costs must be transferred to production

departments on an equitable basis e.g. machine hours.

1. Overheads can only be recovered through production i.e. they are included as a cost of production.

**(ii)** **Distinguish between the allocation, apportionment and absorption of costs**

**Allocation** This is where overhead costs can be specifically identified and charged to a particular department or cost centre.  These overheads are allocated to that department.

**Apportionment** This is where overheads cannot be specifically identified but are shared or divided between departments using an appropriate basis of apportionment.

**Absorption** This is the method by which costs are charged to cost units/units of products in order to be recovered.  An overhead absorption rate for each department can be calculated using a suitable basis such as rate per unit, per labour hour and per machine hour.

**2016**

**Question**

(e) (i) Explain what is meant by reapportionment of overheads.

(ii) Name three overhead absorption rates and state why they are based on budgeted figures. (10 Marks)

**Answer**

**(e) (i) Explain what is meant by reapportionment of overheads.**

This is the term used where service department costs are reapportioned/divided between production departments because overheads can only be recovered by being included in the cost of production.

**(ii) Name three overhead absorption rates and state why they are based on budgeted**

**figures.**

Three overhead absorption rates are

1. Per labour hour
2. Per machine hour
3. Per unit
4. Percentage of prime cost

Overhead absorption rates are based on budgeted rather than actual costs because actual costs may not be known until the end of the year and the business cannot wait until then to decide the cost of the product as they need to decide on the selling price to charge for tendering purposes.

**2012**

**Question**

1. (iv) Explain why it is necessary to transfer service department overheads to

production departments. (5 Marks)

**Answer**

**(a) (iv) Explain why it is necessary to transfer service department overheads to**

**production departments.**

1. Service departments cannot recover costs because no production takes

place in these departments.

1. Service departments are secondary to production departments and as a

result, service department costs must be transferred to production

departments on an equitable basis e.g. machine hours.

1. Overheads can only be recovered through production i.e. they are included as a cost of production.

**2009**

**Question**

1. (i) Explain what is meant by a step fixed cost and give an example. (6 Marks)

(ii) Outline two differences in focus between Management and Financial

accounting. (6 Marks)

**Answer**

1. **(i) Explain what is meant by a step fixed cost and give an example.**
2. Step fixed costs are costs that are fixed within a certain range of activity but changes outside of that range. E.g. Rent could be fixed up to a certain level of production.
3. However, if production increases and results in the rental of more factory space, then the rent would increase to a new level. Thus the fixed costs would increase in steps.

**(ii) Outline two differences in focus between Management and Financial**

**Accounting**

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| **Management Accounting** | **Financial Accounting** |
| 1. Is concerned with planning for the future and provides information for planning and budgeting
 | 1. Is concerned with recording past events. Information is provided in the form of a profit and loss account, balance sheet and cash flow statement
 |
| 1. Has an internal focus and furnishes information to aid planning and decision making
 | 1. Has both internal and external focus and furnishes information to stakeholders such as managers, shareholders and creditors
 |
| 1. Is not governed or restricted by legislation or legal requirements
 | 1. Is governed and regulated by both legislation and accounting standards such as FRS’s.
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| 1. Reports are prepared as often as the managers require them
 | 1. Reports are prepared usually once a year
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| 1. Reports are prepared for cost-centres/ departments
 | 1. Reports are prepared about the whole business
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