













































	All overhead costs ac	are then tivity cost	allocated to o pools.	ne of the
			Direct	Labor
	General Ledger			
	Payroll taxes	`1,000	`1,000	
	Machine maintenance	` 500	2,000	
	Purchasing Dept. labor	` 4,000	<u>4,500</u>	
	Fringe benefits	`2,000	Machin	e Hours
	Purchasing Dept. Supplies	` 250	· 500	
	Equipment depreciation	` 750	750	
	Electricity	`1,250	<u>1,250</u> 2,500	
	Unemployment insurance	`1,500	# of Purcha	ase Orders
	And finally, which ov costs are driven by # purchase orders?	verhead f of	4,000 <u>4,250</u> 4,250	
27-Aug-13	Арі	plication of ABC		24









Now	let's alloca	te over B:	head	to Wid	dget
	Let's do the same thing f of overhead applied.	or the other tw	vo rates, to ç	jet the total an	nount
	Widget B	Base	Rate	Allocated	
	Direct labor hours	600	` 4.50	2,700.00	
	Machine hours	150	` 10.00	` 1,500.00	
	Purchase orders	50	` 42.50	2,125.00	
	Total		$\langle$	6,325.00	
27-Aug-13	The original overhead t driven overhead + `2,5 purchase order driven o The actual overhead all `11,250 overhead appl	to be applied w 00 of machine overhead = `11 located was `4, ied.	as`4,500 of hour driven ,250 total o 925 for Wic	f direct labor overhead + `4 verhead to app lget A + `6,350	4,250 of bly. 1 =
27-Aug-13	`11,250 overhead appl	ied. Application of ABC			29





	C	Calc	ulatic	n		
	General	Ledger				
	Payroll taxes		`1,000			This the total
	Machine maintenan	се	`500	1		overhead we were
	Purchasing Dept. lab	or	`4,000	1		amount is ` 11,250
	Fringe benefits		`2,000	İ		as explained on the
	Purchasing Dept. Su	pplies	`250	İ	Γ	previous slide.
	Equipment deprecia	tion	`750	İ		Total direct labor
	Electricity		`1,250	Ì		hours are 1,000, also
	Unemployment insu	irance	`1,500		J	given earner.
				1		
	Base	W	′idget A	Wio	dget B	Total
	Direct labor hours		400		600	1,000
	Machine hours		100		150	250
27-Aug-13	Purchase orders	Apj	40 plication of ABC		60	<u>100</u> 32



	Widget A	Widget B	Total
Traditional Method	` 4,500	6,750	` 11,250
Activity Based Costing	` 4,925	6,325	` 11,250
Difference	-` 425	` 425	-0-



- I. Traditional based costing systems typically use a single overhead pool whereas Activity based costing utilizes a lot of smaller more targeted cost buildups that are accumulated based on activities.
- II. In traditional cost accounting it is assumed that cost objects consume resources whereas in ABC it is assumed that cost objects consume activities.
- III. Traditional cost accounting mostly utilizes volume related allocation bases while ABC uses drivers at various levels.
- IV. Traditional cost accounting is structure-oriented whereas ABC is process-oriented Application of ABC 35





































