Mukesh Reddy Kavadapu

Overhead cost refers to the cost which is not associated readily with the production of the product or its units, specific services and sales. Overhead cost appears at all significant levels cost categories of the income statement. Every company should have an idea about the per-unit cost product such that it can estimate the overall budget of the product produced which also includes the labor cost, machine cost, administrative cost, office cost and also selling cost of the product like advertisement or promotion of the product. Example: The Tea Company have an overhead cost which includes the ingredients, labor cost, machine cost and advertisement cost for the selling of the products. Tea Company plans for the overhead cost by calculating the per-unit cost of the products.

Cost allocation is the process of identifying, analyzing and allocating the cost to the cost reliable objects for the production. Cost allocation is used for the financial reporting and also it helps to understand the cost in each stage of the production. Cost allocation also helps in cost cutting and allocation the budget to the important cost reliable items. Example: The Tea Company need to allocate the budget perfectly such that there would be no problem in the production and also wastage in the production. Cost cutting is also analyzed by the Tea Company through the cost allocation.

The traditional method of cost accounting refers to the manufacturing overhead cost of the products that are produced. Overhead cost includes the direct and indirect cost of the production. There are many problems associated with the traditional method of cost like potential for inaccuracy because there would be unexpected cost occurs when they while production. Example The Tea Company can have the unexpected cost associated with the direct and indirect cost to which the company can use the traditional method of cost accounting to analyze it.

Activity-Based Costing is created to solve the unexpected cost or the inaccuracy problem found in the traditional method of costing. In Activity-Based costing each task have the assigned cost so the cost is calculated making sure cover all parts of the production before assigning a total cost of the product. Example: The Tea Company calculates the cost at every stage such that the unexpected cost does not occurs.

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