Unit.14
Accounting for Overhead

1. What do you mean by Overhead?

Ans: Overheads are the indirect costs which cannot be directly allocated to any particular job and production activity or process as they are not capable of being specifically identified to any particular activity.

2. Explain different types of overhead under different basis.

Ans: Overheads are the indirect costs which cannot be directly allocated to any particular job and production activity or process as they are not capable of being specifically identified to any particular activity. The different types of overhead under different basis are as follows:-

On the basis of element

i) Indirect materials:
These materials are supplementary of direct materials and support in production process. Generally, these materials do not form the part of finished product as it is more difficult to allocate to a particular unit of product.

ii) Indirect labour:
Wage paid to the workers who are involved other than et on production is indirect labour cost. Such labour cost cannot be allocated but it is essential to apportion such cost to find out correct cost of product or service.

iii) Indirect expenses:

Overhead expenses other than indirect materials and indirect labour are come under indirect expenses. These expenses are not directly related to production process and therefore, it cannot be allocated to a particular production unit or job but can be apportioned to production unit or cost centre.

On the basis of function

i) Manufacturing overhead:

These overheads are also known by production overheads, factory overheads or work on cost. All the expenses, except prime costs, incurred in the factory are come under manufacturing overheads. These expenses are required in the factory to convert input into output.

ii) Administrative Overheads:

All the expenses needed to accomplish managerial and official work and are come under administrative overheads. These expenses are incurred for forma formulation of planning, organizing directing and controlling the operation of the organization.

iii) Selling and distribution overheads:

These expenses are needed to operate, expand and deliver diversify markets for the product or service. Selling overheads are needed to retain existing customers, and to create demand for new customer. Distributi

overheads are incurred starting from packaging of products to final distribution those products to customers.

On the the basis of behaviour

i) Fixed Overheads:

Fixed overheads are periodical cost and related with policy. Generally, these costs remain constant for a fixed period of time like for a month, six months or for a year. The change in volume of output does not affect in total amount of fixed overheads.

ii) Variable overheads:

Variable cost have direct and proportionate relation with volume of output. These overheads fluctuate on the basis of change in the volume of output. It means the amount of variable overhead expenses increases as volume of output have been increased and viceversa.

iii) Semi-variable or Semi-fixed overheads:

These costs involve both variable and fixed nature. These are mixed costs, partly variable and partly fixed. These costs change with the change in volume of output but not direct proportion to change in volume of output.

On the basis of Control

i) Controllable overheads:

These overheads are, in some extent, controllable to the management. An efficient manager can influence over such overheads. An effective plan and supervision system of the management helps to minimize such overhead expenses.

ii) Uncontrollable overheads:

These overheads are beyond the control to the management. The management action does not effect on such overhead expenses. There is no scope to minimize such overheads once such facilities are provided by the management. Management needs to adjust such expenses at the calculation of cost of product or service.

3. What do you mean by allocation of overhead?

Ans: Allocation of overheads is the process of identification of overhead expenses to a particular cost centre, job or department. Allocation of overhead expenses to the department concerned is a must to find out correct cost of product or service.

4. Differentiate between allocation and apportionment of overhead.

Ans: The differences between allocation and apportionment of overhead are as follows:-

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Allocation of overheads	Apportionment of overheads.
i) Allocation is the process of identification of overhead expenses to a particular cost center or department.	i) Apportionment is the process of distribution of overhead expenses to different departments or cost centers.
ii) In allocation overhead expenses is shared only to a particular department.	ii) In apportionment overhead expenses is shared to two or more departments on equitable basis.
iii) It is relevant only when overhead expenses are related only to a particular department.	iii) It is relevant when overhead expenses are related to two or more departments.
iv) It is the basis of distribution of overheads directly to concerned department or cost centre.	iv) It is the basis of distribution of overheads to two or more cost centres or units on most equitable basis.

ii) Software:

Software is a collection of programs that work with hardware. Software is the term used to describe the instruction that tells the hardware how to complete a task. Operating system, utility programs, application software, system software and so on.

iii) People:

People are the most crucial component of any computer system. They make interactions with the computer. They are also known as computer system live-ware. They give the instruction to display the result in the computer.

iv) Procedure:

Computer procedures are a set of processes performed in a specific order or way to accomplish a specific result. It is a series of coded instructions that instruct a computer how to run a program or execute a computation in computer programming.

v) Data:

The facts and numbers that are obtained and entered into a computer system are referred to as a data. It could be made up of a number, text, charts, diagrams and other elements. The computer system saves, retrives, classifies, organize, process, and mixes data to generate information in accurdan with a set of specified instructions.

vi) Connectivity:

Connectivity is the ability to connect to or communicate with another computer or computer system. It refers to how a computer system is linked to others by various means such as telephone, lines, satellite links and so on. Therefore, connectivity refers to the extensive process of connecting various elements of a network to one another.

4. What are the features of computerized accounting system?

Ans:- Computerized accounting system is the use of computers to perform accounting process or function. It involves recording and analyzing financial transactions electronically over the accounting software.

The features of computerized accounting system are as follows:-

i) Speed:

A computer performs mathematical calculation with high speed and accuracy. Millions of instructions can be processed every second by computer. Microseconds and nanoseconds are the length of time.

ii) Versatility:

Versatility refers to the capability of a computer to perform different kinds of works with same accuracy and efficiency.

iii) Accuracy:
Computers perform calculations with 100% accuracy. Errors may occur due to data consistency or inaccuracy or human causes. Otherwise, it always give accurate results after day entry.

iv) Reliability:
When an operator give the same set of input at any time in the computer, it gives the same results. So, the result calculated using a computer is reliable.

v) Diligence:
The memory of computers makes it superior to that of human beings. It can perform millions of tasks or calculations with the same consistency, accuracy and speed.

5. What are the importance/advantages of computerized accounting system?

Ans: A Computerized accounting system is the use of computers to perform accounting process or function. It involves recording and analyzing financial transactions electronically over the accounting softwar

i) High speed:
The computer can perform complex tasks in a short period of time. It requires far less time than human beings in performing task.

ii) Reliability:

The computer never gets tired, bored or fatigue. The results obtained by computers are more reliable than human beings.

iii) Accuracy:

The most critical aspect of the business is accuracy in accounting statement and book of accounts. ~~In ge~~ It generates findings that are 100% correct.

iv) Versatility:

It refers to the computer's ability to perform a variety of tasks. It is capable of being used in area: business, industry, communication statistics.

v) Storage:

A company's ability is to store data is critical. Data can be stored fast in a computerized system. The information is stored indefinitely once it is submitted into the system.

6. What are the limitations of computerized accounting system?

Ans: Without any doubt, the computer system is quite important. Even it has several benefits; the following are the limitations of computerized accounting System:-

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| ii) It takes a lot of time to record and prepare report manually. | ii) This system will save a lot of time. After preparing the journal entries or subsidiary book will give all the information. |
| iii) Errors in calculations, carrying forward balance can exist. | iii) If the input data are correct, the result will always be correct in this system. |

8. Explain the application of computer in accounting.

Ans:- The applications of computer in accounting are as follows:-

i) Maintaining accounting records:

Computers make it simple and efficient to keep accounting records for a long time. It does not require a lot of physical space.

ii) Inventory management:

The computer aids in the efficient management of inventory system, allowing for the identification of fast-moving, slow-making and & obsolete material.

i) **High cost of Installation:** The cost of implementing accounting software is high and not everyone can afford it. The cost for regular operation, annual maintenance charge, and backup are also fairly high.

ii) **Cost of training:** Complex computerized accounting software usually necessities the use of a skilled operator. To ensure efficient and effective use of the software.

iii) **Only aid to decision making:** The computer merely aids the decision making by providing information relevant to it. It cannot take decisions on its own.

7. Differentiate between Manual and computerized accounting system.

Ans: The differences between Manual and computerized accounting system are as follows:-

Manual accounting system	Computerized accounting system
i) All transactions are recorded manually in this system of accounting	i) All the transactions are recorded by using computer.

iii) **Payroll accounting:**
Payroll accounting entails a set of basic calculations to establish each employee's base salary, as well as state and federal tax deductions and employee contributions to retirement account.

iv) **Report generation:**
The computer helps to generate various routine and different financial statements and reports as well. Financial statements are automatically generated by computer.

v) **Data import/export:**
Accounting data and information can be imported from and exported to other users both within and outside the organization.

9. Explain the process of computerized accounting.

Ans: Computerized accounting is the use of computer to perform accounting process or function. It involves recording and analyzing financial transactions electronically over the accounting software. The process of computerized accounting are as follows:-

i) **Input:**
Input refers to any information or data sent to a computer for processing. An input device is used to send input or user input to a computer. The figure depicts the distinction between

output and input.

ii) Storage:
Before data and instruction entered into a computer can be processed, they must first be stored in the computer. Similarly, the results of the computer's processing are saved before being sent to the output units.

iii) Information process:
A process is an instance of a computer program that is being run by one or more threads in computing. It includes the program code as well as its activity. It refers to a set of instructions currently being processed by the computer processor.

iv) Output:
The results of the computer are presented to the users as output. The output of the computer system is in the form of electrical impulses, which are then transformed into a human-readable format.

10. What are the Source document of information in computer System?

Ans:- The major function of accounting are to accurately, identify and record financial transactions of individual, business and other entities in the book of accounts.

The source document of information in computer system are as follows:-

i) Invoices:

An invoice is a bill that is received from a supplier.

ii) Purchase Order:

A purchase order is a commercial document prepared and sent by the buyer to a supplier that shows the orders of goods.

iii) Receipts:

A receipts is one of the source documen of accounting Information that confirms that a person has received money or property in exchange for product or service.

11. What do you mean by Information analysis?

Ans:- Information analysis is the act of identifying and isolating the most important information transmitted by a particular information source, as well as breaking the Information source into its constituent elements using specific evaluative criteria.

12. What do you mean by processor of information?

Ans: Information processing is the change of informatio in any manner detectable by an observer. It is a process that encompasses everything that occurs in the eot cosmos, from a rock falling to a digital

computer system producing a text file. The processor of information is a part of an accounting system that interpretes, convert and summarizes financial data in the form of financial statements and report.

13. Explain the method of Information storage.

Ans: Information Storage is the place where different files and documents of accounting information are digitally recorded and kept using a computer in a storage system for future use. The method of information storage are as follows:-

i) Private data storage:
Private data storage is referred to as on-premise storage. It is a practical approach to retain information on hand inside the premises of the company.

ii) Public data storage:
Public cloud storage does not have on-premises storage equipment that performance and security can greatly vary between service providers. In addition, unlike private cloud storage, reliability is departm- dependent on internet connectivity and service provider availability.

iii) Hybrid data storage:
Hybrid cloud storage is a type of cloud storage model that devices and

combines the functionality of public and private cloud storage models to provide data storage devt service.