COST AND WORKS ACCOUNTING
(Overheads and Methods of Costing-II)
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- Difference between Actual Overhead Rate and Pre-determined Overhead Rate
1. Actual Overhead Rate:

“Actual Overhead Rate is that rate of overhead absorption which is calculated after the actual overheads have been incurred”.

Actual rate is determined by dividing actual overheads incurred during the accounting period by actual quantity or value of the base selected. Actual Overhead Absorption Rate is calculated as follows:

\[
\text{Actual Rate} = \frac{\text{Actual overhead expense incurred during a certain period}}{\text{Actual quantity or value of the base selected to production during a certain period}}
\]
2. Pre-determined Overhead Rate:

“Pre-determined Overhead Rate is that rate of overhead absorption which is calculated in advance before the incurrence of actual overheads, during the period in which it is to be used”.

Pre-determined rate is determined on the basis of budgeted overheads and the budgeted base is for the period. Pre-determined overhead absorption rate is calculated as follows:

\[
\text{Pre-determined Rate} = \frac{\text{Budgeted overheads for the period}}{\text{Budgeted base for the period}}
\]
# Difference between Actual overhead Rate and Pre-determined Overhead Rate:

<table>
<thead>
<tr>
<th>Actual Overhead Rate</th>
<th>Pre-determined Overhead Rate</th>
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<tr>
<td>1. Actual Overhead Rate is that rate of overhead absorption which is calculated after the actual overheads have been incurred.</td>
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</table>
Actual Overhead Rate

2. Actual Overhead Rate is calculated by dividing the actual overheads by the actual basis.

3. For the calculation of this rate, actual overheads are used.

4. Actual base is used to calculate Actual Overhead Rate.

Pre-determined Overhead Rate

2. Pre-determined Overhead Rate is calculated by dividing by the budgeted base.

3. For the calculation of this rate, budgeted overheads are used.

4. Budgeted base is used to calculate Pre-determined Overhead Rate.
Actual Overhead Rate

5. It is computed after the expenses have been incurred.

6. Actual overhead rate does facilitate prompt cost ascertainment.

Pre-determined Overhead Rate

5. It is computed before the expenses are incurred.

6. Pre-determined rates help in the prompt cost ascertainment because these are computed in advance.
Actual Overhead Rate

7. Actual overhead rates do not provide any basis for cost control.

Pre-determined Overhead Rate

7. Pre-determined rates help in cost control because actual overheads can be compared with pre-determined overheads recovered.
8. Actual overhead rates does not facilitate comparison of cost of one period with that of another period because it may fluctuate from period to period due to fluctuations in the amount of overheads.

8. Pre-determined rates maintain uniformity by charging overheads at uniform overhead rate for the full budget period and thus, facilitates comparison of cost of one period with that of another period.
Actual Overhead Rate

9. Actual overhead rates does not facilitate the prompt preparation of cost sheet/quotations and estimates. It does not facilitate in the fixation of selling prices or revision of selling prices.

Pre-determined Overhead Rate

9. Pre-determined rates facilitates the prompt preparation of cost sheets, estimates and quotations and facilitates the fixation or revision of selling prices.
**Actual Overhead Rate**

10. Actual rate cannot be computed until the end of the accounting period. This results in delay in computing cost.

**Pre-determined Overhead Rate**

10. It suffers from an important limitation of creating over and under-absorbed ‘Overhead Expenses’ because ‘Overhead Expenses’ are recovered on the actual production using the pre-determined absorption rate.
Thank You