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COST AND WORKS ACCOUNTING
(Overheads and Methods of Costing-II)
T.Y.B.COM

Difference between Under-Absorption and Over-Absorption Of Overheads

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UNDER-ABSORPTION OF OVERHEADS:

Definition:

“When the amount of overheads absorbed is less than the amount of overheads incurred, is called under-absorption or under-recovery”.

Under absorption is the effect of under-stating the cost because the overheads incurred are not fully recovered in the cost of jobs, processes etc.
OVER-ABSORPTION OF OVERHEADS:

Definition:

“When the amount of overhead absorbed is more than the amount of overhead incurred, is called over-absorption or over-recovery”.

Over- absorption is the effect of over-stating the cost of jobs, processes etc.
## Difference Between Under and Over-Absorption of Overheads:

<table>
<thead>
<tr>
<th>Under-Absorption of Overheads</th>
<th>Over-Absorption of Overheads</th>
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<td>1. When the amount of overheads absorbed is less than the amount of overhead incurred, it is called ‘under-absorption or under-recovery’ of overheads.</td>
<td>1. When the amount of overhead absorbed is more than the amount of overhead incurred, it is called ‘over-absorption or over-recovery’ of overheads.</td>
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Under-Absorption of Overheads  Over-Absorption of Overheads

2. Under-absorption or over-absorption is the effect of understating the cost because the overhead incurred are not fully recovered in the cost of jobs, processes etc.

2. Over-absorption or over-recovery is the effect of overstating the cost because the overhead absorbed is more than the overhead incurred in the cost of jobs, processes etc.
3. In case of under-absorption, supplementary rate is computed by dividing the under-absorbed production overheads by the actual value of the base. This is supplementary rate may be formed positive supplementary rate as the under-absorbed overheads is to be added.

3. In case of over-absorption, supplementary rate is computed by dividing the over-absorbed production overheads by the actual value of the base. This supplementary rate may be called negative supplementary rate as over-absorbed amount is to be subtracted.
Under-Absorption of Overheads  Over-Absorption of Overheads

4. In case of under-absorption, under absorbed production overheads are to be added, applying positive supplementary rate, to the cost of various categories.

4. In case of over-absorption, over-absorbed production overheads are to be deducted from the cost of work-in-progress, unsold stock and units sold.
Thank You