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CHAPTER 8

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USE OF 1
PLANT-WIDE
PREDETERMINED O/H RATE

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- In Chapter 3, we assumed:
1 Predetermined O/H Rate

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- 1 Plant-Wide Application Rate may not be very accurate
 - E.g. goods are different
- If you apply MO/H inaccurately → Inaccurate costing

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- Consequences of inaccurate costing
 - May go after wrong business
 - Inaccurate pricing
 - Wrong product line

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- Having > 1 cost pool might increase accuracy
 - Allows you to differentiate between products

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Departmental MO/H Application Rates

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- Each department can have a different Predetermined O/H rate
- Each department can have a different cost driver

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- Example: Company Makes Standard & Custom Trophies
- 2 production departments
 - Design Department
 - Manufacturing Department
