

**Preparation of an overhead budget**

**How to calculate the revised direct production & OOH costs**

Overhead	£10,000
Fixed overheads	£4,000 (40%)
Variable	£6,000 (60%)
£10,000 (100%)	
£10,000 (100%)	
£10,000 (100%)	
£10,000 (100%)	
£10,000 (100%)	
£10,000 (100%)	

**1. Introduction**

In order to make an effective use of the overheads of a plant or an organisation, OOH costs should not be generated unless they result in the production of one unit of output. In order to generate the overheads needed, separate overheads centres should be established. These are centres of responsibility where the overheads are incurred and controlled. The overheads are then allocated to the various departments or divisions of the organisation. It is not a charge of costs or direct production overheads from overhead centres to separate centres or departments.

In 1998, a company incurred direct OOH costs of £10,000 on 10,000 units of output. In 1999, the company incurred direct OOH costs of £10,000 on 10,000 units of output. The company has decided to reduce the OOH costs to £8,000 in 2000. The company has decided to reduce the OOH costs to £8,000 in 2000.

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**2. Management by Objectives**

In order to make a good use of the overheads of a plant or an organisation, OOH costs should not be generated unless they result in the production of one unit of output. In order to generate the overheads needed, separate overheads centres should be established. These are centres of responsibility where the overheads are incurred and controlled. The overheads are then allocated to the various departments or divisions of the organisation.

**3. Overhead costs**

- The overheads of a plant or an organisation are divided into fixed overheads and variable overheads.
- Fixed overheads are those overheads which are incurred in the production of output, but do not vary with the level of output. Variable overheads are those overheads which vary with the level of output.
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**4. Full cost accounting**

The full cost accounting system is a system of accounting for all the costs of a plant or an organisation.