WEEK 1 DISCUSSION

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**Overhead:**

Overhead costs is necessary to run a business but it cannot be applied directly to the particular business activity, goods, or services. There are various reasons where overhead can be under-applied. For instance, lack of control over the spending of overhead leads to the increase in actual costs of overhead than the estimated costs of overhead. If there is a fixed amount of some of the overhead and estimated amount of the allocation base at the starting of the period turns out to be lower than the actual amount for the given period, the overhead will be under-applied. In addition, If balance is created in the overhead's control account to the sold goods, overhead can be prevented 1. This strategy indicates that productions’ actual cost was higher than the costs that were estimated for the traded goods. Therefore, the balance developed is credited to the amount of goods sold account. These are the prominent manifestations pertinent to the instances where overhead is under-applied.

**Predetermined Overhead:**

The predetermined overhead rate is estimated to apply overhead to the work/job. It can be calculated when the estimated cost of manufacturing overhead at the start of every period is divided by the allocation base (direct labor hours is the most common allocation base) and the calculated value will be known as the predetermined overhead rate 2. Therefore, the formula for calculating predetermined overhead would be:

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It is imperative to mention that this formula is based primarily on estimates. In other words, the predetermined overhead rate is the rate of allocation base which is applied to find out the manufacturing overhead cost to the cost goods for a specific period of reporting. Predetermined overhead rate is usually used to support in accounts or books closing faster. The bottom line is that predetermined overhead.

**References**

1. The Most Common Accounting Treatment of Underapplied Manufacturing Overhead. https://smallbusiness.chron.com/common-accounting-treatment-underapplied-manufacturing-overhead-35027.html. Accessed March 18, 2019.

2. How to Calculate Predetermined Overhead Rate Machine Hours. https://smallbusiness.chron.com/calculate-predetermined-overhead-rate-machine-hours-38399.html. Accessed March 18, 2019.