

Objectives in the study of overheads

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graph TD; A[Objectives in the study of overheads] --> B[Link the overheads to individual units]; A --> C[Control the overheads];
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Link the overheads to individual units

Control the overheads

Steps

- 1** **Collection of Overheads**
- 2** **Classification of Overheads**
- 3** **Distribution of Overheads to all departments [Primary distribution]**
- 4** **Re-distribution of service department overheads to production departments (Secondary Distribution)**
- 5** **Absorption of Overheads to the product**

Six Different Types of Absorption Rates

Type	Formula	Expressions
Labour Hour Rate	$[\text{Overhead} / \text{Labour Hours}]$	Per Hour
Machine Hour Rate	$[\text{Overhead} / \text{Machine Hours}]$	Per Hour
Material Cost Rate	$[\text{Overhead} / \text{Direct Material Cost}] \times 100$	Percentages
Labour Cost Rate	$[\text{Overhead} / \text{Labour Cost}] \times 100$	Percentages
Prime Cost Rate	$[\text{Overhead} / \text{Prime Cost}] \times 100$	Percentages
Production Units Rate	$[\text{Overhead} / \text{Units Produced}]$	Per unit