Exercise 11-5 (15 minutes)

1. The total overhead cost at the denominator level of activity must be determined before the predetermined overhead rate can be computed.

Total fixed overhead cost per year	$250,000
Total variable overhead cost ($2 per DLH × 40,000 DLHs)	80,000
Total overhead cost at the denominator level of activity	$330,000

$$\text{Predetermined overhead rate} = \frac{\text{Overhead at the denominator level of activity}}{\text{Denominator level of activity}}$$

$$= \frac{\$330{,}000}{40{,}000\text{ DLHs}} = \$8.25\text{ per DLH}$$

2.

Standard direct labor-hours allowed for the actual output (a)	38,000 DLHs
Predetermined overhead rate (b)	$8.25 per DLH
Overhead applied (a) × (b)	$313,500