Legal Eagles Overhead Control Account				
	Dr	Cr	Bal	Dr/Cr
Accounting	8,500		8,500	Dr
Rental	34,000		42,500	Dr
Support wages	19,000		61,500	Dr
Cleaning	3,500		65,000	Dr
Other expenses	2,500		67,500	Dr
Overhead applied		70,000	2,500	Cr
Cost of goods sold	2,500		-	

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Legal Eagles records all costs associated with each legal case. This includes all of the photocopying that is done on that case, all the travel for the lawyers, all the telephone calls and all the hours that both the partners and associate lawyers spend working on the case. These costs are easy enough to record as they are directly related to a specific job/case.

②

Some costs are not directly related to the job so these are recorded as overheads and are allocated to the job using an overhead rate based on the number of partners' hours. Partners' hours are used because the overhead costs are incurred mainly by the number of partners as they work on cases. The overhead rate is calculated by taking the total estimated overhead costs and dividing this by the number of estimated partners' hours.

Sometimes Legal Eagles has over-applied overhead which means more overhead was charged to jobs for the year than was actually incurred. This needs to be controlled to ensure that Legal Eagles is not consistently over-charging their clients and possibly missing out on getting cases due to their quotes being a lot higher than their competitors. On the other side of the coin, under-applied overheads means that Legal Eagles is not covering all of its overhead costs for the year, which also impacts on their profit as it reduces the mark-up on the cases.

③

In this case, Legal Eagles' quote is higher than Levin Law but this is mainly due to Levin Law not recording all of the costs of their job. It is important to record all costs in order to ensure that all costs are covered so that the business can continue to operate at a profitable level.

③

Some sections of the student's narrative response have been omitted from this exemplar.