TEAM PACIFIC CORPORATION

TEAM PACIFIC CORPORATION

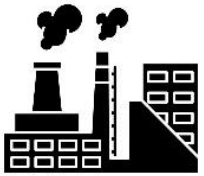
INVENTORY AND MANUFACTURING ACCOUNTING

November 17, 2023

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

RSM

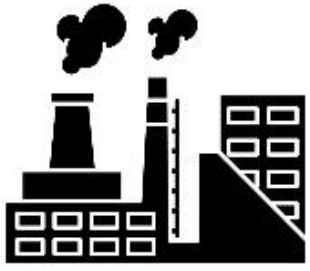




INVENTORY AND MANUFACTURING PROCESS OF TEAM PACIFIC

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

RSM



KEY CONCEPTS

Inventory

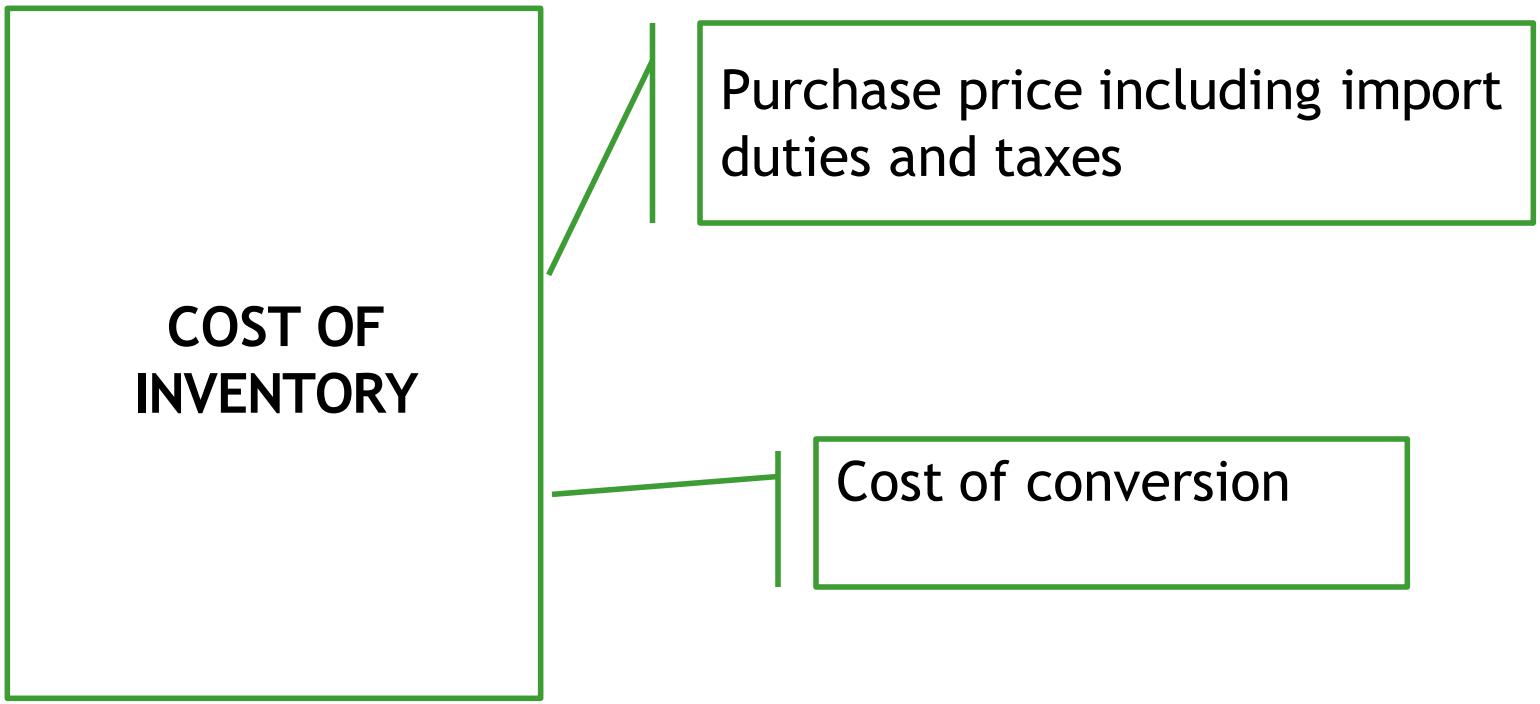
Tangible assets that are:

- Held for sale in the ordinary course of business **(finished goods)**
- In the process of production for such sale **(work in process)**
- In the form of materials or supplies to be consumed in the production process or in the rendering of services **(raw materials and manufacturing supplies)**

Types of Inventory

Finish goods (residual inventory)	• Held for sale in the ordinary course of the business
Work in process	• In the process of production for such sale
Raw materials, Supplies	• In the form of materials or supplies to be consumed in the production process or in the rendering of services

Inventory Cost



Manufacturing Cost Classifications

Direct Materials	• Materials used in the manufacturing process; significant part of the finished goods (FG)
Direct Labor	• Employees who work directly with the raw materials in converting them to FG
Manufacturing Overhead (OH)	• Costs incurred that cannot be considered direct materials or direct labor: indirect materials, indirect labor and other manufacturing OH

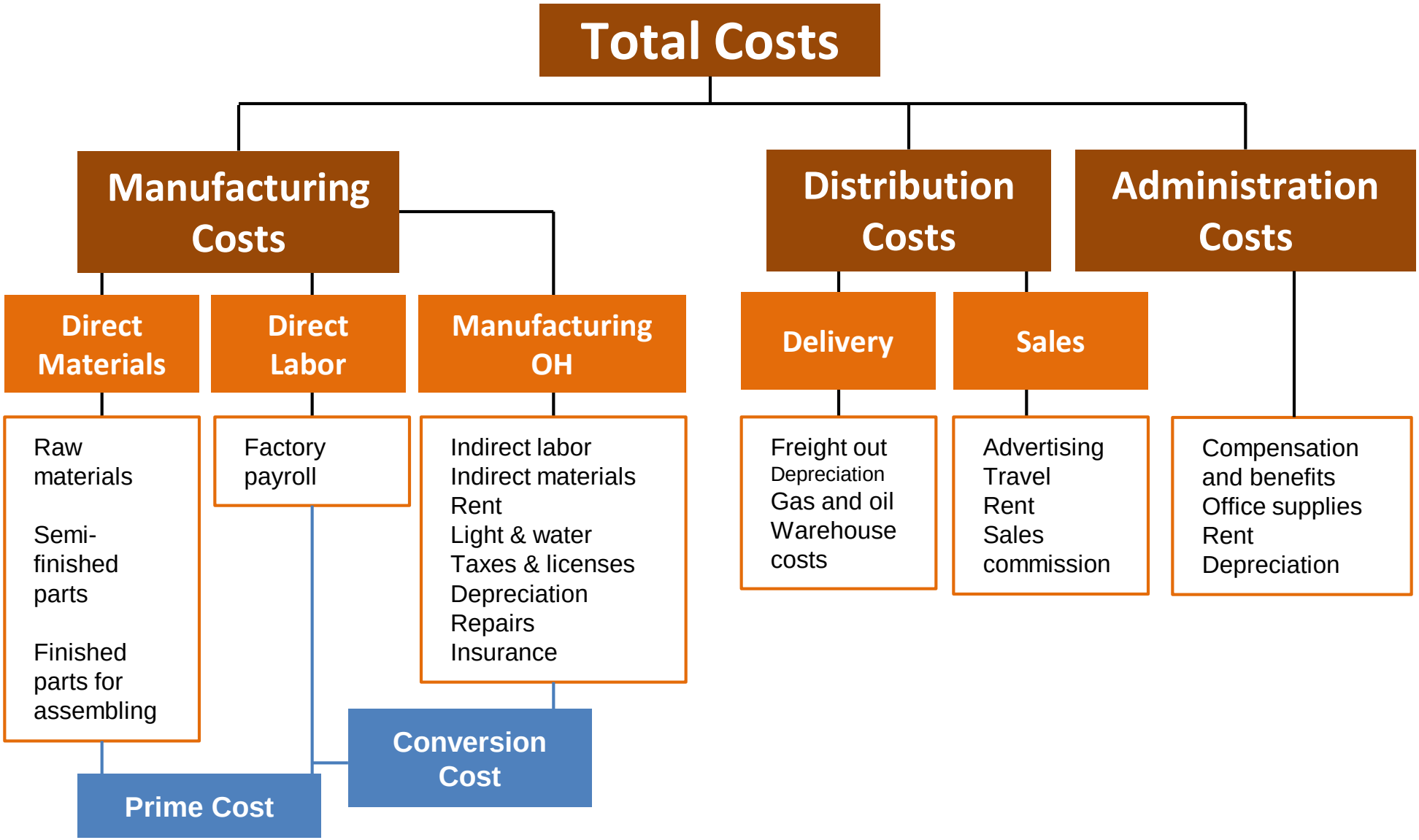
Manufacturing OH

Variable OH	• costs that change as the volume of production changes or the number of services provided changes
Fixed OH	• costs that do not change even while the volume of production activity changes

Prime vs Conversion Costs

Prime Cost		*Conversion Cost*	
	Direct Materials		Direct Labor
	Direct Labor		Manufacturing OH

Cost for a Manufacturing Company



System of Cost Accumulation

ACTUAL costing

STANDARD costing

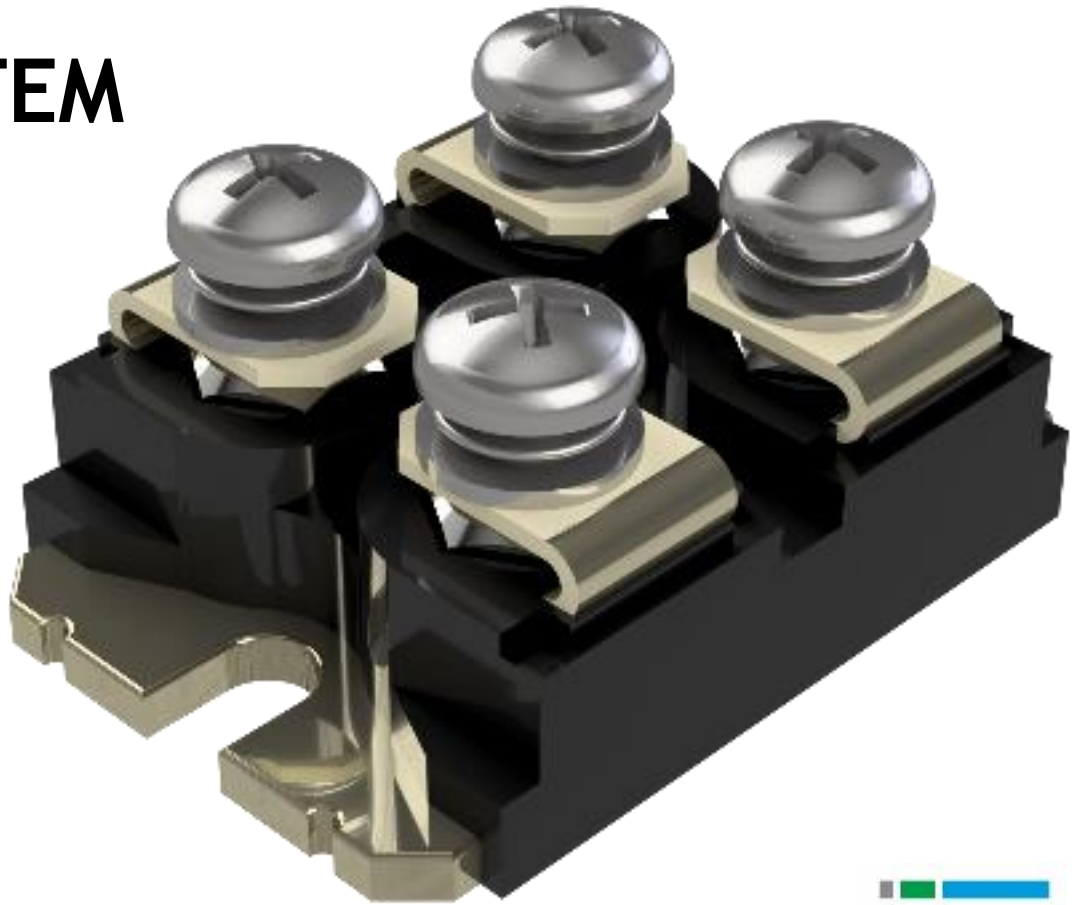
NORMAL costing

Cost Systems

JOB ORDER COST SYSTEM

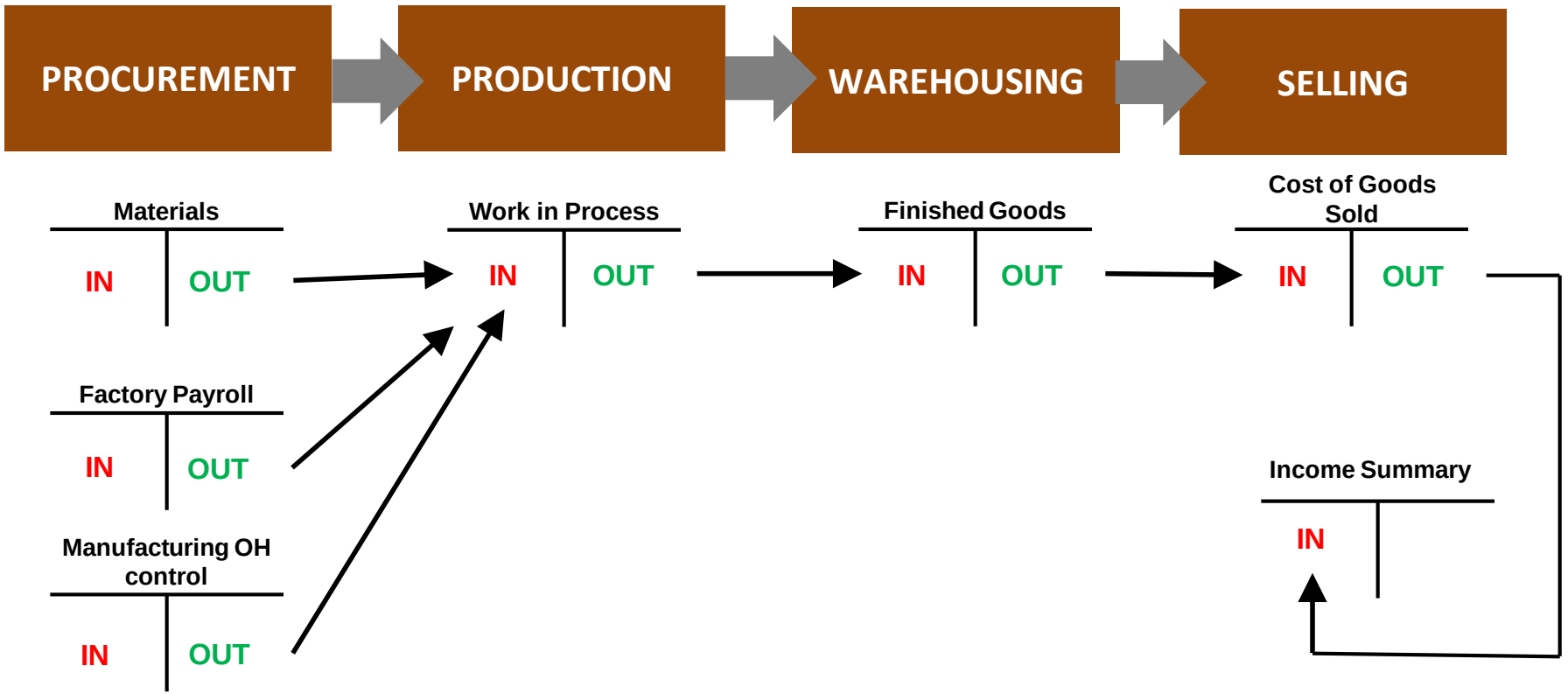
PROCESS COST SYSTEM

DUAL SYSTEM



JOB ORDER: Cost Flow and Work Flow

Flow of the costs through the accounting information system parallels the flow of products through manufacturing operations.



Production Losses

SCRAP

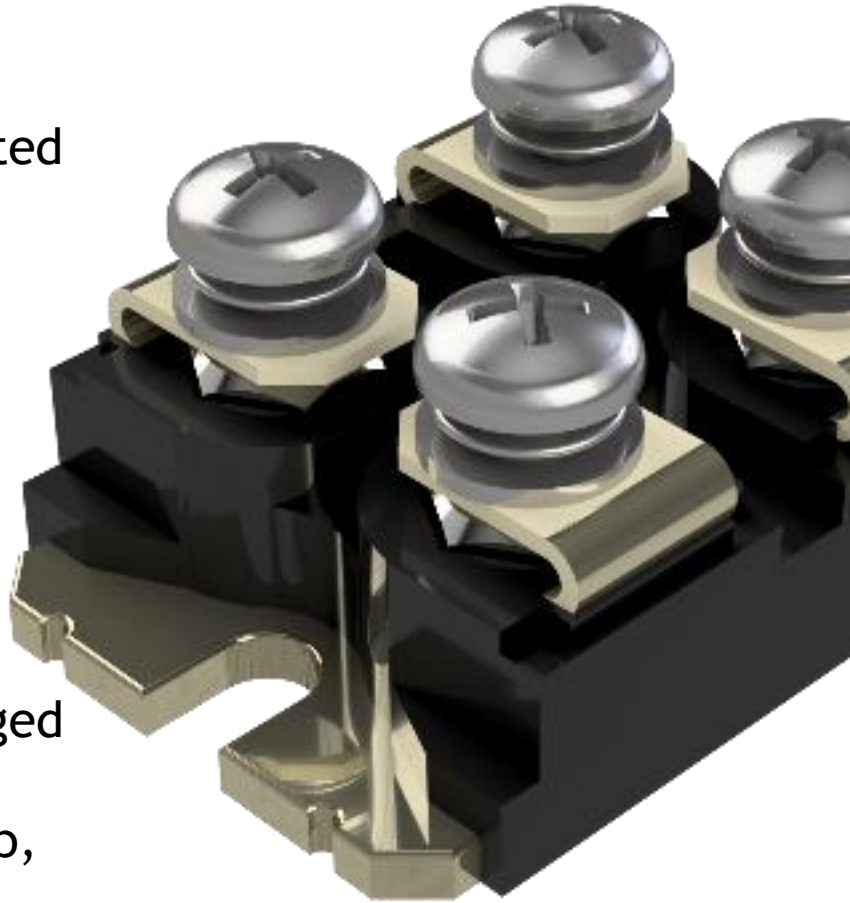
- If value is immaterial, recognize revenue when sold
- If material and job-specific, may be credited to WIP
- For high value scrap, record to Scrap Inventory Account

SPOILAGE

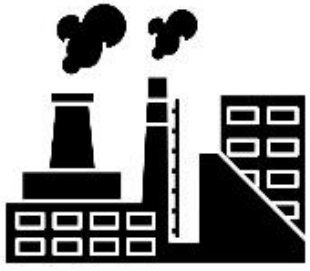
- Charged to a particular job order
- Charged to manufacturing OH

REWORK

- If due to normal production process, charged to Manufacturing OH
- If unusual and identifiable to a specific job, should be added to the cost of the job

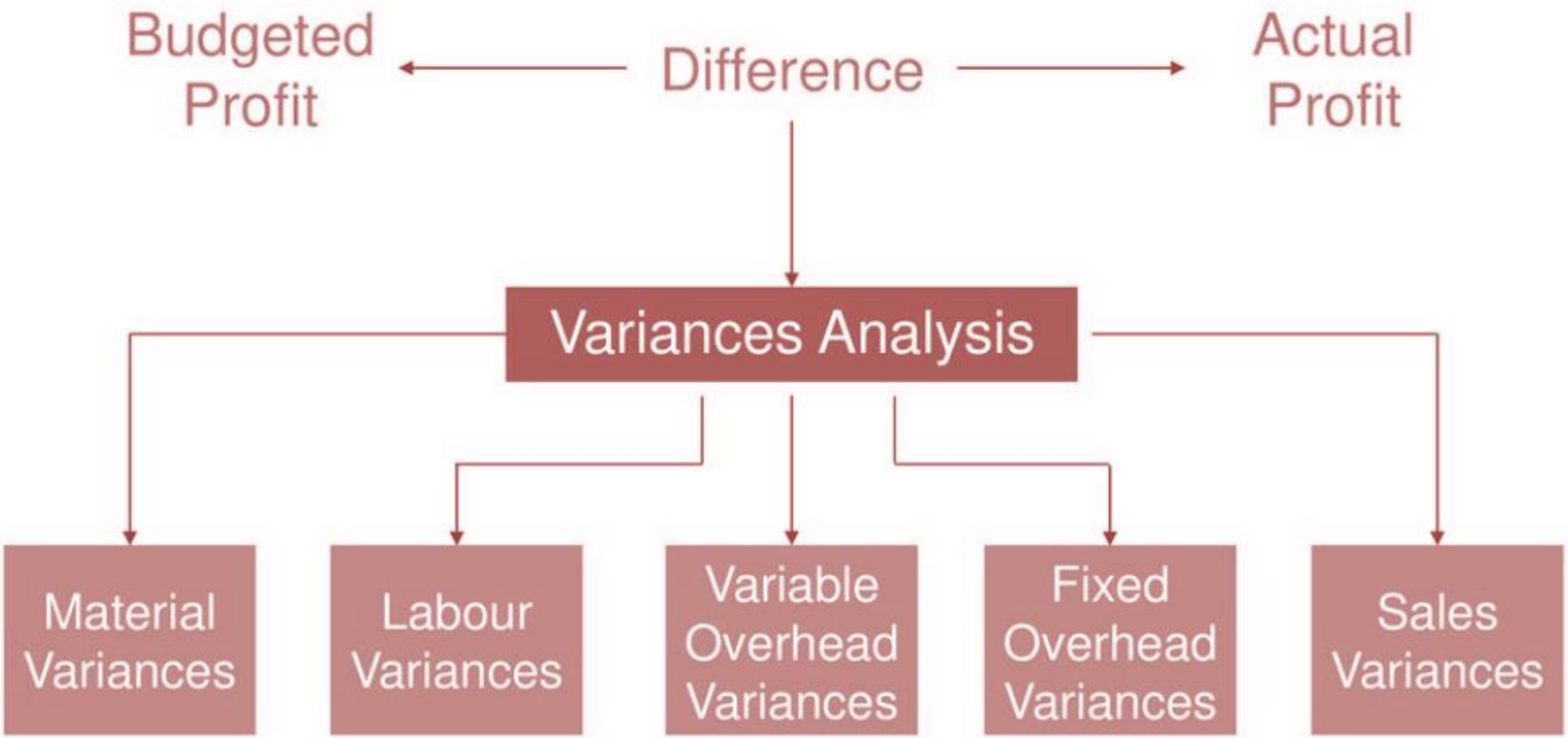


Questions and answers?



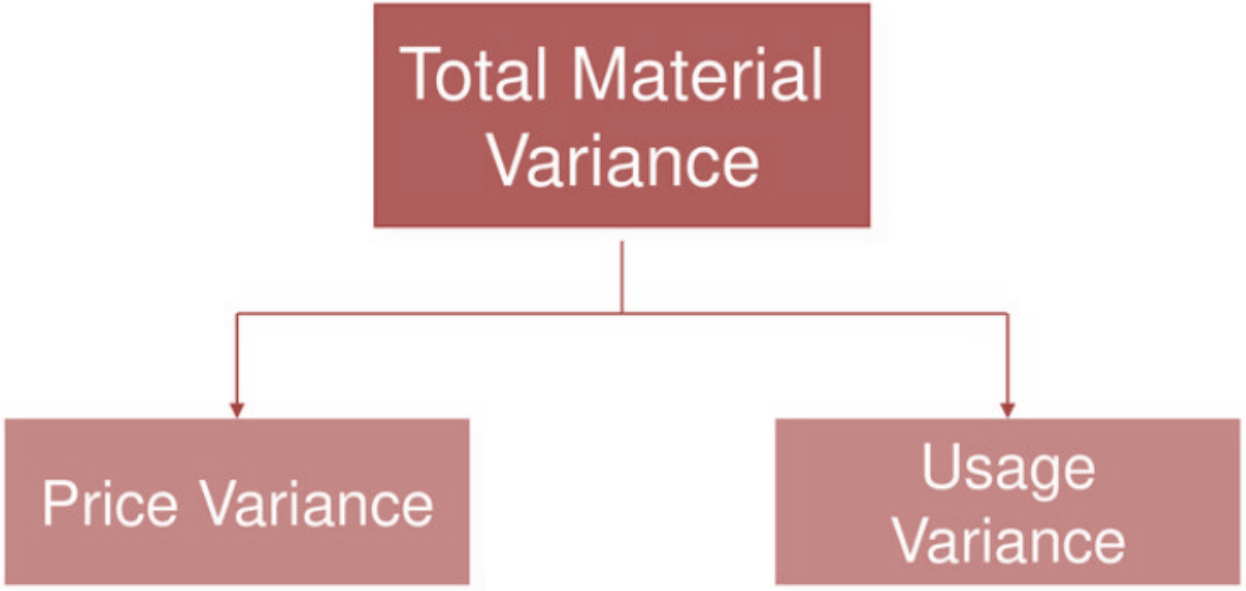
BASIC VARIANCE ANALYSIS

Variances


Budgeted Profit
Difference
Actual Profit
Variances Analysis
Material Variances
Labour Variances
Variable Overhead Variances
Fixed Overhead Variances
Sales Variances

Material COST Variance

Differences **between prices paid and prices determined**; and Difference **between quantities consumed and quantities of materials allowed** for production.



Material COST Variance

Differences **between prices paid and prices determined**; and Difference **between quantities consumed and quantities of materials allowed** for production.

Can be computed using the formula:

Material Cost Variance = (SQ x SP) – (AQ x AP)

where, **AQ = Actual Quantity**
AP = Actual Price
SQ = Standard Quantity for the actual output
SP = Standard Price

Material COST Variance

SOT-227 requires 10 kgs of Material A at the rate of ₱4/kg. The actual consumption of SOT-227 was 12 kgs at the rate of ₱4.50 per kg. How much is the MCV?

Material PRICE Variance

Can be computed using the formula:

Material Price Variance = (Standard Price – Actual Price) x Actual Quantity

SOT-227 requires 10 kgs of Material A at the rate of ₱4/kg. The actual consumption of SOT-227 was 12 kgs at the rate of ₱4.50 per kg. How much is the MPV?

Material USAGE or QTY Variance

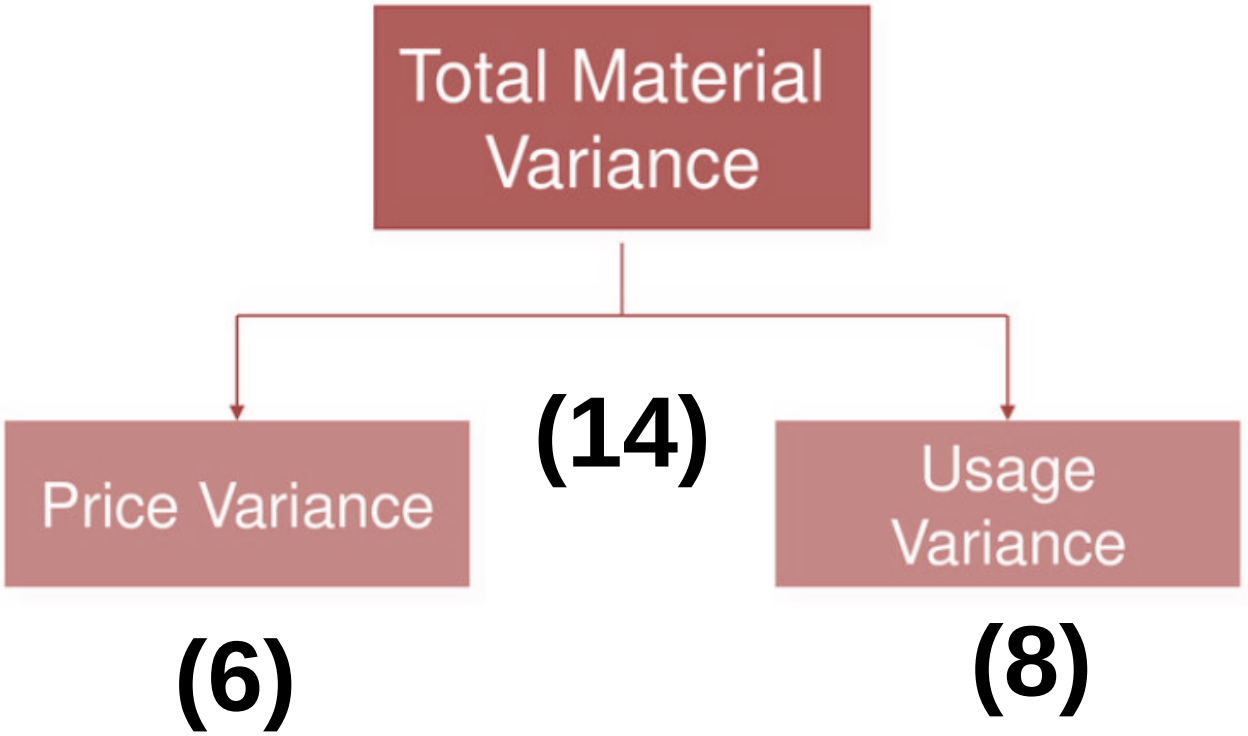
Can be computed using the formula:

Material Qty. variance = (SQ for actual output – AQ) x Standard Price

SOT-227 requires 10 kgs of Material A at the rate of ₱4/kg. The actual consumption of SOT-227 was 12 kgs at the rate of ₱4.50 per kg. How much is the MQV?

Material COST Variance

Differences **between prices paid and prices determined**; and Difference **between quantities consumed and quantities of materials allowed** for production.



Labor COST Variance

Differences between the **actual direct labor paid and standard direct labor specified** for the output achieved.

Labor COST Variance

Differences between the **actual direct labor paid and standard direct labor specified** for the output achieved.

Can be computed using the formula:

Labour Cost Variance = (SH x SR) – (AH x AR)

where, **AH = Actual hours**
AR = Actual Rate
SH = Standard hours for actual output
SR = Standard Rate

Labor COST Variance

The standard time and rate for TO-247 are given below:
Standard Hours - 15
Standard Rate - ₱4/ hour

Actual data:
Actual production - 1000 units
Actual hours - 15,300 hours
Actual rate - ₱3/hour

What is the labor cost variance?

Labor RATE Variance

Can be computed using the formula:

Labour Rate Variance = (Standard Wage Rate – Actual Rate) x Actual Time

The standard time and rate for TO-247 are given below:
Standard Hours - 15
Standard Rate - ₱4/ hour

Actual data:
Actual production - 1000 units
Actual hours - 15,300 hours
Actual rate - ₱3/hour

What is the labor rate variance?

Labor TIME or EFFICIENCY Variance

Can be computed using the formula:

Labour Efficiency variance = (SH for actual output – AH) x Standard Rate

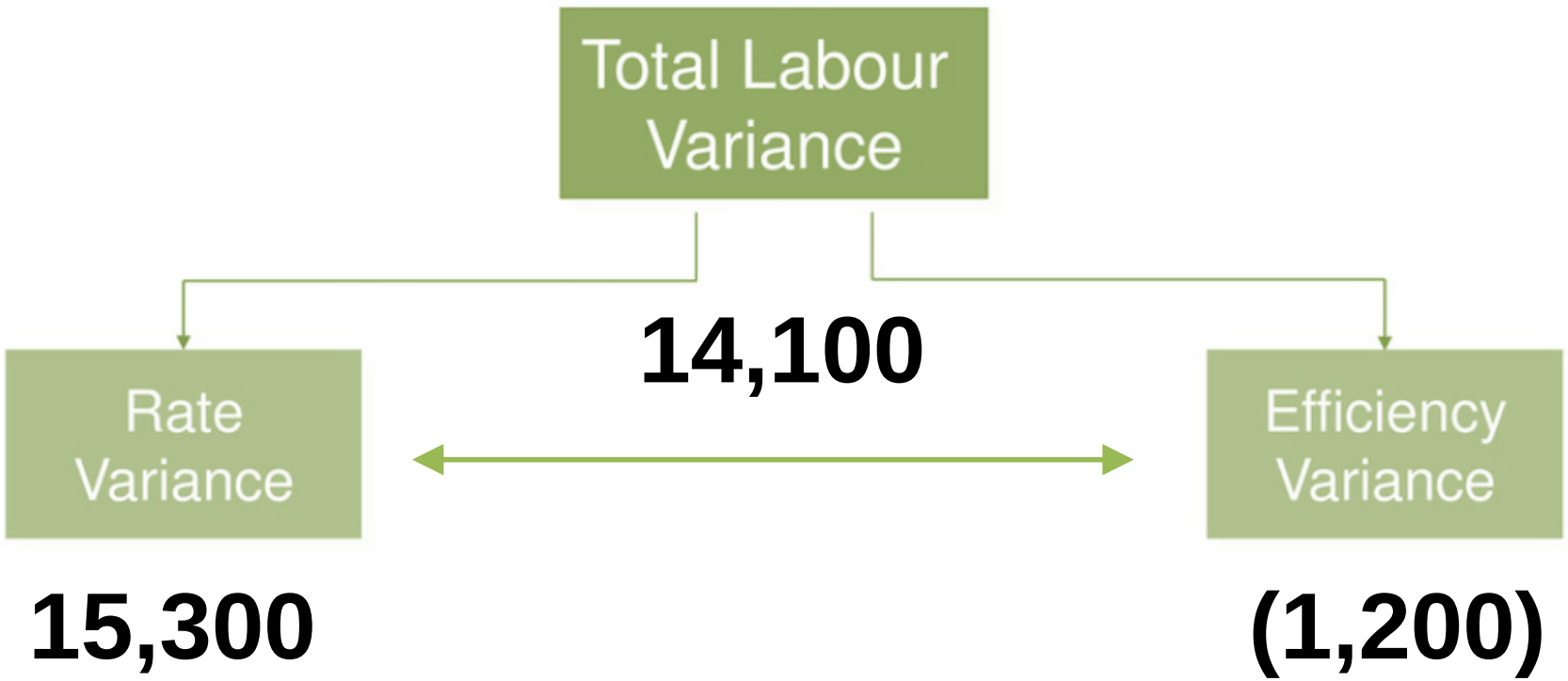
The standard time and rate for TO-247 are given below:
Standard Hours - 15
Standard Rate - ₱4/ hour

Actual data:
Actual production - 1000 units
Actual hours - 15,300 hours
Actual rate - ₱3/hour

What is the labor rate variance?

Labor COST Variance

Differences between the **actual direct labor paid and standard direct labor specified** for the output achieved.



Variable Overhead (VOH) Variance

Differences between the **standard variable overhead and actual variable overhead incurred.**

Can be computed using the formula:

Variable OH Cost Variance = Standard Variable OH on actual production – Actual variable OH

OR

Variable OH Cost variance = (Actual time or standard hours for actual production x Standard variable OH Rate) – (Actual Variable OH)

Where, Standard variable OH Rate per unit or per hours = $\frac{\text{Budgeted OH}}{\text{Budgeted output or hours}}$

Variable Overhead (VOH) Variance

Budgeted production for the year – 5,000 units
Actual production – 4,600 units
Budgeted variable OH – 100,000
Actual variable OH – 93,000

What is the variable OH cost variance?

Fixed Overhead (FOH) Variance

Differences between **fixed overhead incurred and fixed overhead absorbed.**

Can be computed using the formula:

Fixed OH Cost Variance = (Recovered or absorbed Fixed OH) – (Actual Fixed OH)

OR

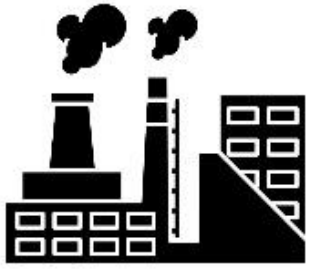
(Actual output) x (Standard OH Rate) – (Actual OH Rate x Actual Output)

Fixed Overhead (FOH) Variance

Normal capacity – 5,000 hours
Budgeted FOH - ₱10 per standard hour
Actual level of capacity utilized – 4,400 standard hours
Actual FOH - ₱52,000

What is the Fixed OH cost variance?

Questions and answers?



VALUATION

Measurement

Inventories shall be measured at the lower of **cost** and **net realizable value**.

estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Estimating NRV

Finish goods (residual inventory)	NRV is estimated selling price less cost to sell
Work in process	NRV is estimated selling price less cost to complete and sell
Raw materials, Supplies	NRV is estimated replacement cost of the materials/ supplies

Example

Faith Co. has a partially-completed inventory with the following data:

Production costs incurred to date	2,900,000
Production costs to complete	2,800,000
Transport costs to customer	300,000
Future selling cost	400,000
Estimated selling price	5,500,000

1. *At year-end, the inventory shall be measured at what amount?*
2. *Prepare the entry to record the loss on inventory write-down.*

In summary,

- NRV is based on the **most reliable evidence** available at the time the estimates are made.
- NRV also take into consideration the **purpose** for which the inventory is held.
- **Inventories are usually written down to NRV item by item.** In some circumstances, however, it may be appropriate to group similar or related items.
- Annual assessment is required.

Collaborative Discussion

THANK YOU FOR YOUR TIME AND ATTENTION.