

Chapter-2

Cost terms, Concepts and Classification

Cost and Expenses:

The amount of money which is incurred or paid for present or future benefit is called expenses.

Such as wages expenses salary Expenses, Rent Expenses etc.

On the other hand the total amount of inputable expenses which is incurred for particular production or production process is called cost such as Material cost, prime cost, Factory cost etc.

Elements of cost:

Following are the various element of cost-

- 1) Material – Direct
 Indirect
- 2) Labour/Wages- Direct
 Indirect
- 3) Overhead:
 - Manufacturing/Factory overhead
 - Office and administrative overhead
 - Selling and Distribution overhead

**** Summary of cost classification:**

Purpose of cost classification	Cost classification
1) Preparing external financial statements	<p>Product Costs:</p> <ul style="list-style-type: none">• Direct Material• Direct Labour• Manufacturing overhead <p>Non manufacturing cost-</p> <ul style="list-style-type: none">• Marketing/Selling cost• Administrative costs
2) Predicting Cost behavior in response to changes in activity	<ul style="list-style-type: none">• Variable Cost• Fixed Cost

	•	Semi-variable cost
3) Assigning Costs to costs objects	•	Direct Cost
	•	Indirect Cost
4) Making Decision	•	Differential Cost
	•	Sunk Cost
	•	Opportunity Cost

Income Statement
For the year ended Dec-31, 20---

	Tk.	Tk.	Tk.
Sales		***	
Less: Returns & Allowances		***	
Net Sales			***
Less: Cost of goods sold (from cost statement)			***
Gross Margin on Sales			***
Less: Operating Expenses			
Marketing Expenses		***	
Administrative Expenses		***	***
Operating Income			***
Add: Non Operating Income:			
Capital gain on sale of Fixed Assets	***		
Royalties & Dividend Received	***		
Interest earned	***		
Discount on purchase (Cash)	***	***	
Less: Non Operating Expenses			
Interest Expenses	***		

Other Non-Operating Expenses	***	***	***
Net Income (Before Tax)			***
Less Tax			***
Net Income (After Tax)			***

Form-1

..... Co. Ltd.

Statement of Cost of Goods Manufactured and sold

For the year ended December 31, 20----

	Tk.	Tk.	Tk.
1. 1)Direct Materials Consumed/Used:			
Opening stock of Raw Materials		***	
Add: Purchase of Raw Material	***		
Freight in/Carriage Inward	***		

Less: Purchase Returns, Trade Discount and allowances	***		

Materials Available for use		***	
Less: Closing Stock of Raw Materials		***	
Direct Material Consumed/Used			***
2. 2)Direct Labour:			***
3. 3)Direct Expenses (in any):			***
(A) Prime Cost (1+2+3)			****
4. Add Factory Overhead/Manufacturing Overhead:			
Indirect Material, Indirect Labour, Indirect Expenses		***	
Heat, Light, Power, Coal, CoKe Payroll		***	

taxes			
Factory Supplies, Depreciation		***	
Factory Properties, Insurance Premium		***	
Or Factory Properties, Repairs & Maintenance		***	
Factory Rent. Amortization of Patent. Tools and die used. Royalty.		***	
...		***	
Testing Expenses, All other Indirect Expenses		***	
Relating to production or manufacture of goods		***	
Total Factory/Manufacturing expenses			*****
B) Factory cost			*****
Add. Beginning Work in process			*****
Less Ending Work in Process			*****
C) Cost of goods manufactured			*****
Add. Beginning Finished goods			*****
Less Ending Finished goods			*****
D) Cost of goods sold			*****

Problems

Problem 2.1

Nord Manufacturing Company recorded the following data during 2019:

Raw materials purchased	\$ 360,000
Inventories- January 1,2019:	
Raw materials	\$ 70,000
Work in Process	240,000
Finished goods	60,000
Direct labor cost	1260,000
Manufacturing overhead (80% fixed)	900,000
Selling expenses (all fixed)	600,000
Administrative expenses (all fixed)	462,000
Sales	7500 units as \$650 per unit
Inventories- December 31, 2019	
Raw materials	\$ 62,000
Work in process	220,000
Finished goods	58,000

Required:

- Prepare a cost of goods manufactured statement for 2019
- What is the firm's net income for 2019?
- Divide the manufacturing cost for 2019 into their variable and fixed components.

Req. A.

Nord Mfg. Co

Cost of goods Manufactured statement

For the year ended 31st dec. 2019

Particulars	\$	\$
1) Raw material consumed		
Opening R/M	70,000	
+ Purchase of R/M	<u>3,60,000</u>	
	4,30,000	
Less Ending R/M	<u>62,000</u>	3,68,000
2) Direct labour		<u>12,60,000</u>
3) Prime cost (1+2)		16,28,000
Add Factory O/H		<u>9,00,000</u>
B) Factory cost		2528,000
Add opening W-I-P		2,40,000
Less closing W-I-P		<u>2,20,000</u>
C) Cost of goods manufactured		25,48,000
Add opening finished goods		60,000
Less closing Finished goods		<u>58,000</u>
D) Cost of goods sold		25,50,000
Add Operating expenses:		
Administrative expenses	4,62,000	
Selling expanses	<u>6,00,000</u>	<u>10,62,000</u>
E) Total cost of sales		36,12,000
Add Profit (48,75,000-36,12,000)		<u>12,63,000</u>
F) Total sales		4875,000
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Req. B.) Nord mfg. co.
Income statement
For the year ended 31st dec. 2019

particulars	\$	\$
Sales		4875,000
Less cost of goods sold		<u>25,50,000</u>
Gross margin		23,25,000
Less Operating expenses:		
Marketing exp.	6,00,000	
Administrative Exp.	<u>4,62,000</u>	<u>1062,000</u>
Net income		12,63,000 =====

Fixed Mfg. O/H **(9,00,000 x 80%)** **= \$7,20,000**

Variable mfg. O/H **(9,00,000 x 20%)** **= \$ 180,000**

Problem 2.2

Marwick Company recorded the following data during 2019:

Sales	\$ 620,000
Raw materials purchased	72,000
Selling and administrative expenses	96,000
Direct labor	118,000
Beginning raw materials inventory	18,000
Ending raw materials inventory	15,000
Plant depreciation	112,000
Plant utilities	6,500
Indirect labor	8,800

Insurance plant	3,000
Beginning work in process inventory	57,000
Ending work in process inventory	59,000
Beginning finished goods inventory	25,000
Ending finished goods inventory	22,000
Maintenance – plant	4,700

Required:

- A. Prepare a cost of goods manufactured statement for 2019
- B. Prepare an income statement for 2019
- C. Assume 4,000 units were manufactured during 2019. What was the unit cost of plant depreciation? Would the unit depreciation cost change if 6,000 units were produced?

Problem- 2.3

During 2019, Culver Manufacturing company incurred the following cost in connection with its production activities:

Plant utilities	\$ 36,600
Indirect labor	51,600
Raw materials purchase	210,000
Direct labor	156,000
Depreciation on plant equipment	36,600
Plant rent	30,000
Supplies used in production	15,600
Repairs to plant equipment	32,400

The beginning and ending inventories were:

	Beginning Inventory	Ending Inventory
Raw materials	\$ 26,400	\$ 22,400
Work in process	44,400	50,400
Finished goods	51,600	42,000

Required:

- A. Calculate the total amount of manufacturing overhead cost for 2019.
- B. Prepare a cost of goods manufactured statement for the year ended December 31,2019

Problem 2.4:

The following costs were incurred by Davis corporation in its manufacturing activities during 2019:

Plant insurance	\$ 24,000
Direct labor	144,000
Raw materials purchases	183,600
Plant Utilities	51,600
Repairs to Plant equipment	20,400
Indirect labor	64,800
Plant supplies	12,000

The beginning and ending inventories were:

	Beginning Inventory	Ending Inventory
Raw materials	\$ 32,800	\$ 28,800
Work in process	49,200	54,000
Finished goods	39,600	37,200

Required:

- C. Calculate the total amount of manufacturing overhead cost for 2019.
- D. Prepare a cost of goods manufactured statement for the year ended December 31,2019

Problem 2-5

The following amounts and accounts were taken from the records of womble Manufacturing Company:

Advertising expenses	\$ 126,000
Bad debt expense	33,000
Depreciation- plant machinery	48,000
Depreciation- Sales office equipment	18,000
Direct labor	759,000
Plant utilities	32,100
Plant rent	234,000
Plant supplies used	150,000
Finished goods inventory 1/1/19	276,000
Finished goods inventory 12/31/19	255,000
Indirect Labor Cost	186,000
Machinery repairs	42,000
Sales office expenses	63,000
Administrative salaries	462,000
Property Taxes- Plant equipment	18,000
Property taxes- Sales office equipment	39,000
Purchase Discounts on raw materials	36,000
Raw materials inventory 1/1/19	134,000
Raw materials inventory 12/31/19	159,000
Raw materials purchases	1,350,000
Sales	3,766,000
Sales returns	66,000
Sales commissions expense	120,000
Work in process inventory 1/1/19	51,000
Work in process inventory 12/31/19	63,000

Required

Prepare an income statement and a cost of goods manufactured statement for the year ended December 31,2019.

Problem 2.6

Ontario Manufacturing Company, Inc. has compiled the following amounts and accounts for the preparation of its 2019 financial statements:

Work in process inventory 1/1/19	\$ 32,400
Raw materials inventory 1/1/19	42,000
Finished goods inventory 1/1/19	90,000
Indirect labor	80,400
Sales commissions expense	165,168
Sales	1,376,400
Raw materials purchases	432,000
Freight in ...	18,000
Purchase discounts on raw materials..	8,400
Plant rent	20,640
Advertising expense	30,000
Finished goods inventory 12/1/19	81,600
Sales returns	19,200
Factory supplies used	41,400
Depreciation office equipment	59,400
Raw materials inventory 12/31/19	46,800
Direct labor	236,400
Plant utilities	16,440
Administrative salaries	188,640
Work in process inventory 12/31/19	37,920
Plant insurance	10,920
Depreciation plant equipment	19,320

Required:

Prepare an income statement and a cost of goods manufactured statement for the year ended December 31, 2019.

