


BUS 254,

Financial

Managerial

Users - Investors, Bankers, Govt.

Detail - Consolidated (Big)

Time - Past

Verifiability - Yes

Rules - Yes, IFRS

Insider - Manager, Employee

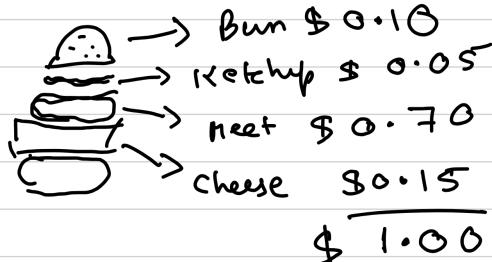
Segmented (small Department)

Past | Present | Future

No

No

What managers do? → 1) Planning → Predicted
2) Directing → Evaluating & Verifying
3) Controlling
→ How to get the target.



known as
Direct Material



$\$15/\text{hour}$
 6 minutes

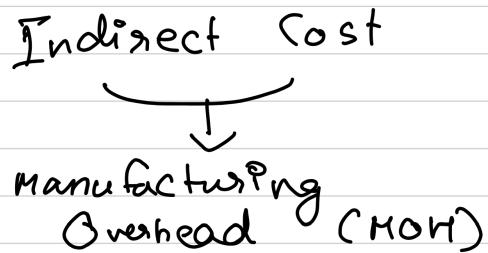
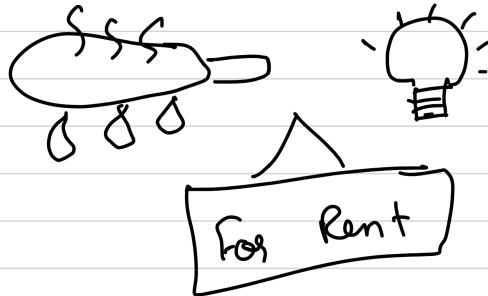
$$6/60 = 10\%.$$

$$\rightarrow \$15 \times 10\% = \$1.5$$

↓

Direct Labour

Indirect Cost:



→ Pre-determined MOH Rate

$$= \frac{\text{Estimated Total MOH}}{\text{Estimate MOH Driver}} = \frac{20,000}{2,000}$$

$$= \$10/\text{Hours}$$

$$\rightarrow 10 \times 6/60 = \$1 \text{ for one burger.}$$

Burger → \$1 , Chef → \$1.50
 (DM) (ML)

MOH → Applying → \$1.00 / \$3.50

$$\begin{array}{l}
 \rightarrow \text{Direct Material} \rightarrow \text{Beginning RM} = \$0 \\
 + \text{Direct Labour} \quad \text{Purchases} = 2000 \\
 - \text{MOH} \quad \text{Available} = 2500 \\
 \hline
 = \text{Cost} \quad \text{Ending RM} = 100 \\
 \text{RM Used} = 2400
 \end{array}$$

a) a. schedule of cost of goods manufactured

MA6 - Schedule of Cost of Goods Manufactured Example Part 1	
<i>Outdoor Supplies manufacturing for hunting and camping. The company shows the following data related to its December 31, 2025 fiscal year end:</i>	
<i>Inventory</i>	
Raw materials inventory, January 1, 2025	\$14,000
Raw materials inventory, December 31, 2025	17,000
Work in process inventory, January 1, 2025	31,000
Work in process inventory, December 31, 2025	20,000
Finished goods inventory, January 1, 2025	84,000
Finished goods inventory, December 31, 2025	68,000
<i>DL</i>	<i>275,000</i>
<i>MOH</i>	
Factory supervisor's wages	64,000
Company president's salary	120,000
Purchases of raw materials	425,000
Depreciation (60% factory, 40% office)	240,000
Property taxes (80% factory, 20% office)	20,000
Sales commissions	100,000
Repairs and maintenance (100% relate to the factory)	15,000
Utilities expense (90% factory, 10% office)	30,000
Sales revenue	2,050,000
Advertising	215,000
<i>Admin</i>	<i>144,000 MOH</i>
	<i>- 76,000 Admin</i>
	<i>168,000 MOH</i>
	<i>- 4,000 Admin</i>
<i>DM</i>	<i>15,000 MOH</i>
	<i>- 27,000 MOH</i>
	<i>7,000 Admin</i>
<i>Selling</i>	
<i>Administrative</i>	

Required:

Based on the information above:

- a.) Prepare a schedule of cost of goods manufactured.
- b.) Prepare a schedule of cost of goods sold.
- c.) Prepare an income statement (assuming a tax rate of 20%).

Direct Material

RM , Inventory , Jan 1, 2025

14000

Add : Purchases

425000

RM available for use

439000

RM inventory , Dec 31, 2025

17000

RM used in production

422000

Direct Labour -

(2) 275000

MCH

Factory Supervisor Wages	64000
Depreciation	144,000
Property tax	16000
Repair & Maintenance	15000
Utilities	<u>27000</u>

(3) 266,000

Total Manufacturing cost -	<u>963,000</u>
Add : WIP inventory, Jan 1, 2025	<u>31 000</u>
	<u>994,000</u>

Deduct : WIP in .. , Dec 31, 2025	<u>-20 000</u>
	<u>\$ 974,000</u>

→ Schedule of Cost of goods Sold :

year ended in
Dec 31, 2025

FG, Inventory Jan 1, 2025	84,000
Add Cost of goods manufactured	<u>1974000</u>
Available for Sale	1058,000
Deduct : FG Inventory Dec 31, 2025	<u>990,000</u>
Cost of Good sold	<u>\$ 990,000</u>

→ Income Statement

Dec 31st, Year 2025

Sales Revenue

2,050,000

COGS

990,000

1,060,000

Gross Profit

- Operating expenses

- 538,000

(Depreciation, property tax,
Sales Commissions, Utilities,
Advertising)

Net Income before taxes

\$22,000

Income tax (20%)

- 104,400

Net Income

\$ 417,600

Job Order
Costing

VS

Process
costing

"custom"

"one size fits
all"

$$\rightarrow \frac{\text{Estimated Total MOH}}{\text{Estimated Total DL hours}} = \frac{250000}{20000}$$

$$= \$ 12.50 / \text{DL}$$

$$\rightarrow 300 \text{ board for } \$ 15 \rightarrow \begin{matrix} \text{Raw} \\ \text{Material} \end{matrix} \text{ hour}$$

$$\rightarrow 300 \times 15 = 4500$$

$$\rightarrow 240 \text{ hours} \times 20 = 4800 \rightarrow \text{Direct labour}$$

$$\rightarrow 240 \times 12.5 = 3000 = \text{MOH} \text{ (estimated)}$$

$$\rightarrow 4500 + 4800 + 3000 = 12,300$$

(Compute the cost)

$$\text{b) } 12,300 \times 3 = 36,900$$

$$\Rightarrow \begin{array}{r} 36900 \\ - 12300 \\ \hline 24600 \end{array} \rightarrow \text{gross profit.}$$

\rightarrow Direct Cost & Indirect cost

\downarrow

Direct material (DM) + Direct labour (DL) Manufacturing overhead (MOH)

\rightarrow $\text{DM} + \cancel{\text{DL}} + \text{MOH} = \boxed{\text{Product}}$

Prime Cost Conversion Cost

→ Non-manufacturing Cost

- 1) Administrative Cost
- 2) Selling Cost

Period

deducted from revenue
for net income.

→ Common MOHs :

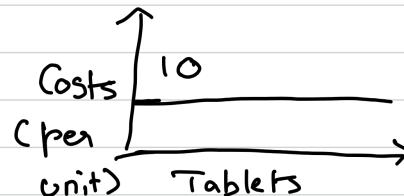
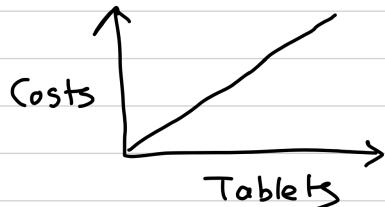
- 1) Property tax
- 2) Factory equipment
- 3) Maintenance
- 4) Manager Salary
- 5) Quality Inspector

→ Common Selling expenses :

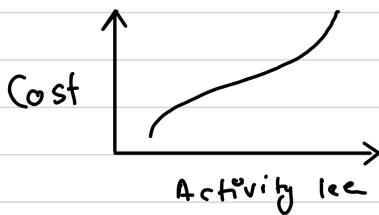
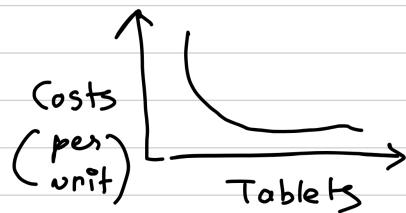
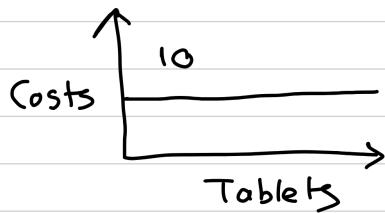
- 1) Advertising
- 2) Sales Commissions
- 3) Cost of shipping

→ Variable - Directly & proportionately
with changes in activity level.

Eg: 10% decrease in activity,
10% decrease in variable cost.



2) Fixed Cost - same in total with irrelevant of changes.



- Curvilinear
(Total variable cost)

- Non linear
(Total fixed cost)

3) Mixed Cost

Changes in total but not proportionately with changes in activity level

→ High-Low Method -

Step 1 : Determine variable cost per unit

$$\frac{\text{Change in Total cost}}{\text{Activity level}} = \frac{\text{Change in Cost}}{\text{Activity level}}$$

Step 2 : Determine fixed cost by subtracting total variable cost at high or low from total cost at the level

For ex :

Month	Kilometres Driven	Total Cost	Month	Kilometres Driven	Total Cost
January	40,000	\$30,000	March	70,000	\$49,000
February	80,000	48,000	April	100,000	63,000

High Level of Activity:	April	\$63,000	100,000 km
Low Level of Activity:	January	<u>\$30,000</u>	<u>40,000 km</u>
Difference		\$33,000	60,000 km

Step 1: Using the formula, variable costs per unit are $\$33,000 \div 60,000 = \$.55$ variable cost per km

$$1) \text{ Highest level} = \$63,000 - 100,000 \\ \text{Lowest level} = \$30,000 - 40,000$$

$$(High - low) \quad \overline{33,000} \quad \overline{60,000}$$

$$\Rightarrow 33,000 \div 60,000 = \boxed{0.55} \\ \text{variable cost per km.}$$

$$2) \text{ For high cost} = 100,000 \text{ km} \times 0.55 \\ = 55,000 + x = 63,000$$

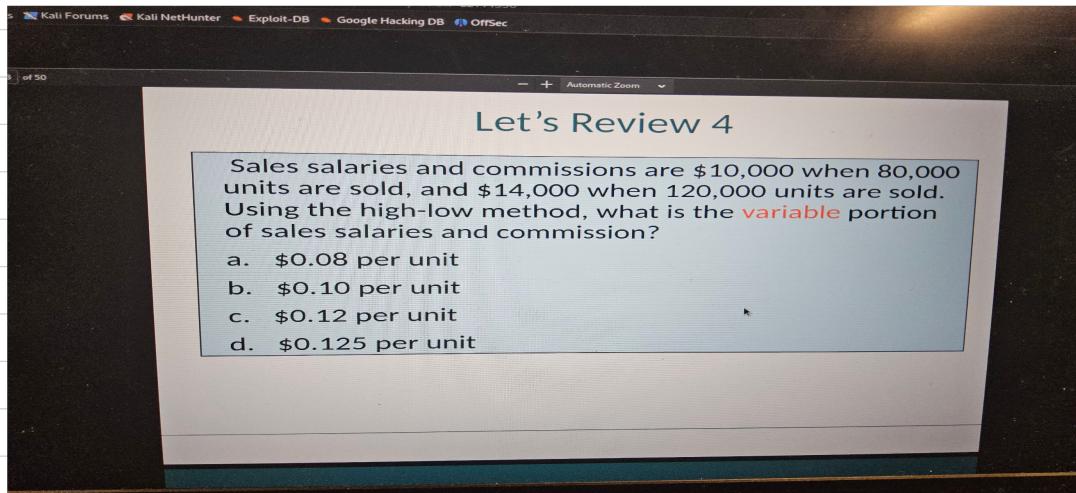
$$\Rightarrow x = 8000$$

$$\begin{aligned}
 \text{for low cost} &= 30000 \times 0.55 \\
 &= 22000 \\
 \Rightarrow 22000 + xc &= 30000 \\
 xc &= 8000
 \end{aligned}$$

so for ex if we have 4500 km

$$\begin{aligned}
 \text{so it would} &= 8000 + 45000 \\
 &\quad \times 0.55 \\
 &= 32750.
 \end{aligned}$$

$$So, Y = 8000 + 0.55 X$$



$$\begin{aligned}
 \text{High} &= \$14000 - 120000 \\
 \text{Low} &= \$10000 - 80000 \\
 &\quad - \\
 &\quad \frac{\$4000}{40000}
 \end{aligned}$$

$$\Rightarrow \frac{4000}{4000} \Rightarrow \$0.1 \text{ per unit}$$

& fixed cost is =

$$\text{High} = 120000 \times 0.1 = 12000$$

$$12000 + x = 14000$$

$$x = 2000$$

$$\text{Low} = 80000 \times 0.1 = 8000$$

$$8000 + x = 10000$$

$$x = 2000$$

$$\therefore y = 2000 + 0.1x$$

Inventory Account

$$\begin{array}{c} \boxed{\text{Beginning Balance}} \\ + \quad \boxed{\text{Addition to inventory}} \\ = \quad \boxed{\text{Ending Balance}} \quad + \quad \boxed{\text{Withdrawals from Inventory}} \end{array}$$

$$\begin{array}{l}
 \Rightarrow \boxed{\text{Beginning work in progress}} + \boxed{\text{Manufacturing cost}} = \boxed{\text{Total Cost of W.I.P.}}
 \\[10mm]
 \rightarrow \boxed{\text{Total Cost of WIP}} - \boxed{\text{Ending WIP}} = \boxed{\text{Cost of Goods Manufactured}}
 \end{array}$$

3 types of inventories

- 1) Raw - Material
- 2) Work in Progress
- 3) Finished Product

of 50

- + Automatic Zoom

Manufacturing Costs in Financial Statements

Balance Sheet: Inventories

Merchandising Company Balance Sheet December 31, 2020		Manufacturing Company Balance Sheet December 31, 2020	
Current assets		Current assets	
Cash	\$100,000	Cash	\$180,000
Receivables (net)	210,000	Receivables (net)	210,000
Merchandise inventory	400,000	Inventories	
Prepaid expenses	22,000	Finished goods	\$80,000
Total current assets	<u>\$732,000</u>	Work in process	25,200
		Raw materials	<u>22,800</u>
		Prepaid expenses	18,000
		Total current assets	<u>\$536,000</u>

Current assets sections of merchandising and manufacturing balance sheets

