Assignment 2

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**a) Explanation of Cost, Expense, and Loss:**

**1: Cost**

**In financial reporting, cost refers to the monetary value assigned to the acquisition or production of an asset. It represents the amount incurred to obtain an item or to bring it into the condition and location necessary for its intended use. Costs are initially recorded as assets on the balance sheet and are subsequently allocated or expensed based on their nature and useful life. The key characteristic of costs is that they are associated with the acquisition, production, or enhancement of assets, and they are expected to provide future economic benefits to the entity.**

**2:** **Expense**

**Expense refers to the cost incurred by an entity in generating revenue or conducting its ongoing operations. Expenses are recognized in the income statement and are deducted from revenues to determine the entity's net income or loss. Expenses represent the consumption or outflow of economic benefits, such as the cost of goods sold, salaries and wages, rent, utilities, advertising, and administrative expenses. Unlike costs, expenses are not expected to generate future economic benefits, but rather, they contribute to the generation of revenue or the day-to-day operations of the entity.**

**3:** **Loss**

**Loss, in financial reporting, represents a decrease in the entity's economic benefits during a specific period. It arises from events or transactions that are considered non-operating or extraordinary in nature and are not part of the entity's primary business activities. Losses are typically recognized in the income statement and are deducted from revenues to calculate the net income or loss. Examples of losses include impairment of assets, write-offs of uncollectible receivables, litigation settlements, or natural disaster damages.**

**While there are similarities among the terms cost, expense, and loss, their distinguishing characteristics can be summarized as follows:**

**\*Cost is associated with the acquisition or production of assets and is expected to provide future economic benefits.**

**\*Expense represents the ongoing operational costs incurred in generating revenue and does not provide future economic benefits.**

**\*Loss is incurred from non-operating or extraordinary events, resulting in a decrease in economic benefits.**

**b) Classification of Items:**

**1:** **Cost of goods sold: Cost The cost of goods sold represents the direct costs incurred to produce or acquire the goods that were sold during a particular period. It includes the cost of raw materials, direct labor, and overhead directly attributable to the production process.**

**2:** **Bad debts expense: Expense Bad debts expense refers to the amount of accounts receivable that is estimated to be uncollectible. It represents an expense incurred due to the credit risk associated with customers' inability to pay their outstanding balances.**

**3:** **Depreciation expense for plant machinery: Expense Depreciation expense represents the allocation of the cost of plant machinery over its useful life. It is recognized as an expense to reflect the wear and tear, obsolescence, or reduction in value of the machinery as it is used in the entity's operations.**

**4:** **Organization costs: Cost Organization costs are the expenses incurred during the formation of a new entity, such as legal fees, registration costs, and initial setup expenses. These costs are initially recorded as assets and then amortized over a specific period.**

**5:** **Spoiled goods: Loss Spoiled goods refer to goods that become unsuitable for sale or use due to damage, deterioration, or expiration. The cost of spoiled goods is recognized as a loss, representing a decrease in economic benefits.**

**c) Period Cost and Product Cost:**

**1:** **Period Cost: Period costs are expenses that are not directly tied to the production process or the acquisition of goods. These costs are not included in the cost of inventory but are expensed in the period incurred. Period costs are related to the general operations or functions of the entity, such as selling, marketing, and administrative expenses. They are recognized as expenses in the income statement during the period in which they are incurred and are not capitalized as part of the cost of inventory.**

**2:** **Product Cost: Product costs, also known as inventoriable costs, are costs directly associated with the production or acquisition of goods intended for sale. They include the cost of raw materials, direct labor, and overhead costs directly attributable to the production process. Product costs are capitalized as part of inventory and are expensed only when the inventory is sold.**