Section (1)

Cost Chapter (2): Cost Terms & Purposes

Cost classifications → Different classifications for different purposes using different basis

"تقسيمات مختلفة Cost تقسيم ال elements"

① By type :-

- Materials
- Labor
- Manufacturing overhead (electricity – Supervisor Salaries ...)

② By function / In relation to Financial Statements :

Manufacturing [product / Inventoriable]

DM + DL + MOH / Indirect manufacturing (plant)

or = COGS ; if units manuf. = sold & no beginning inventory

→ Balance Sheet [Capitalized as assets "Inventory" when incurred]

DM, WIP, FG

when sold → COGS → Income Statement

Non-manufacturing [period]

- Selling (Sales commissions) (marketing – distribution)
- Administrative (Office Salaries)

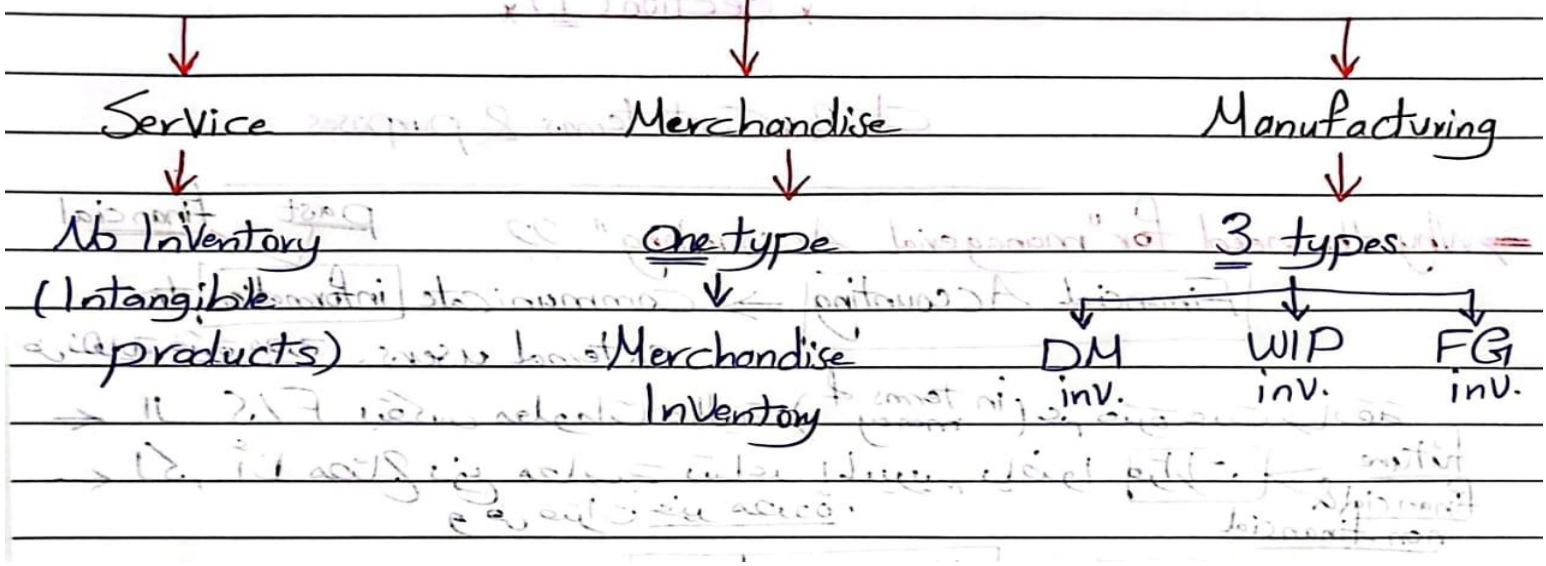
→ Income Statement [Expensed in the same period incurred]

(All I/S expenses except COGS)

N.B

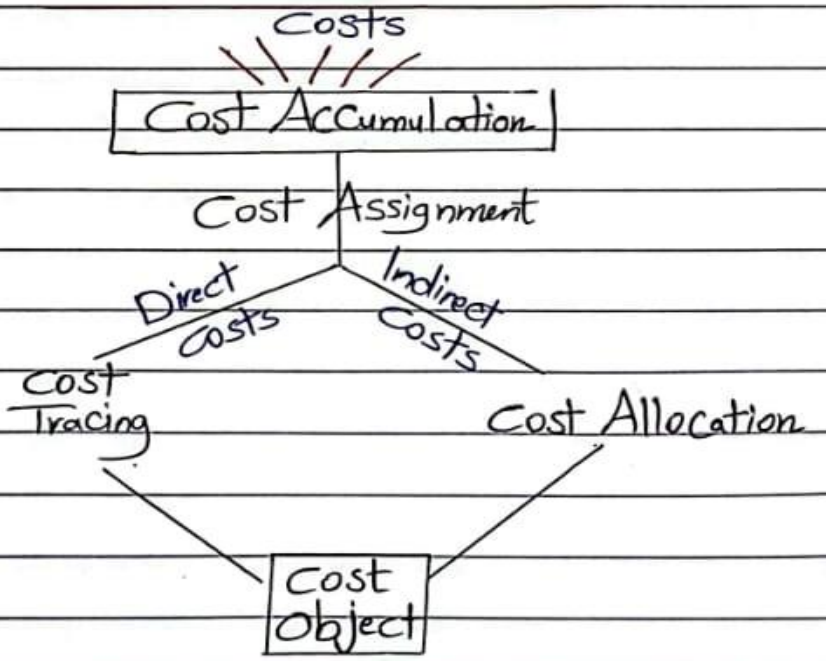
- prime costs = DM + DL
- conversion costs = DL + MOH

⇒ Types of inventory in different types of firms :-



③ In relation to cost object:

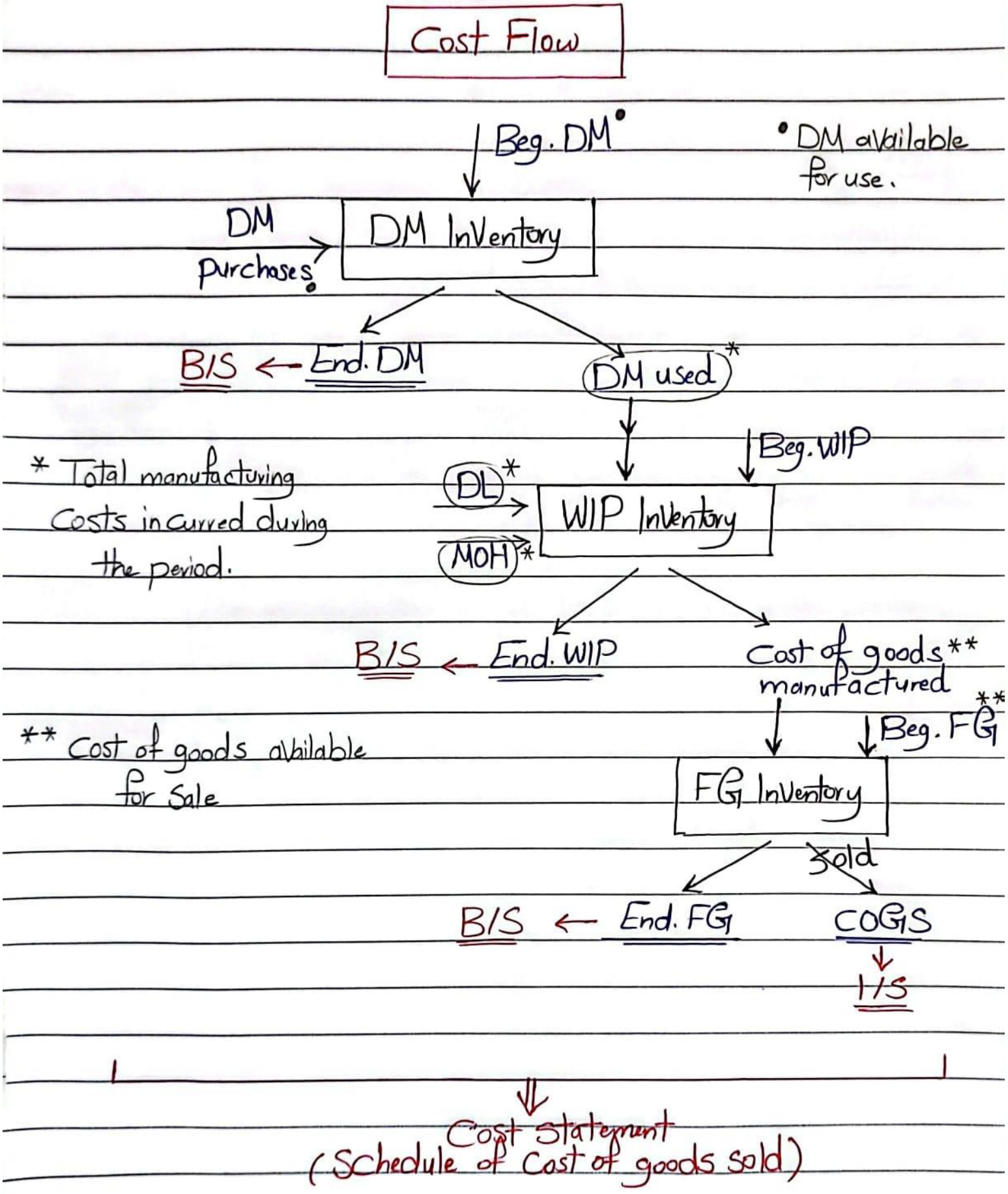
- **Direct** → Can be easily & economically traced → ⇓ = DM + DL
- **Indirect** → Can't be easily or economically traced (not cost-effective) → ⇓ = MOH



④ In relation to cost behavior / Level of Activity:

	Variable	Fixed
In Total	Change in proportion with activity (directly)	Constant within relevant range (Capacity)
Per unit	Constant	Change inversely
	⇓	⇓
	DM, DL, VMOH | V S&A	FMOH | FS&A

Cost Flow


Beg. DM*
* DM available for use.
DM Purchases
DM Inventory
B/S ← End. DM
DM used*
Beg. WIP
* Total manufacturing costs incurred during the period.
DL*
MOH*
WIP Inventory
B/S ← End. WIP
Cost of goods** manufactured
** Cost of goods available for Sale
Beg. FG**
FG Inventory
Sold
B/S ← End. FG
COGS
I/S
Cost Statement
(Schedule of Cost of goods sold)

Exercises

2-33 Cost of goods manufactured, income statement, manufacturing company. Consider the following account balances (in thousands) for the Piedmont Corporation:

Piedmont Corporation	Beginning of 2011	End of 2011
Direct materials inventory	65,000	34,000
Work-in-process inventory	83,000	72,000
Finished goods inventory	123,000	102,000
Purchases of direct materials		128,000
Direct manufacturing labor		106,000
Indirect manufacturing labor		48,000
Indirect materials		14,000
Plant insurance		2,000
Depreciation—plant, building, and equipment		21,000
Plant utilities		12,000
Repairs and maintenance—plant		8,000
Equipment leasing costs		32,000
Marketing, distribution, and customer-service costs		62,000
General and administrative costs		34,000

1. Prepare a schedule for the cost of goods manufactured for 2011.
2. Revenues for 2011 were $600 million. Prepare the income statement for 2011.

2-31 Flow of Inventoriable Costs. Renka's Heaters selected data for October 2011 are presented here (in millions):

Direct materials inventory 10/1/2011	$ 105
Direct materials purchased	365
Direct materials used	385
Total manufacturing overhead costs	450
Variable manufacturing overhead costs	265
Total manufacturing costs incurred during October 2011	1,610
Work-in-process inventory 10/1/2011	230
Cost of goods manufactured	1,660
Finished goods inventory 10/1/2011	130
Cost of goods sold	1,770

Calculate the following costs:

1. Direct materials inventory 10/31/2011
2. Fixed manufacturing overhead costs for October 2011
3. Direct manufacturing labor costs for October 2011
4. Work-in-process inventory 10/31/2011
5. Cost of finished goods available for sale in October 2011
6. Finished goods inventory 10/31/2011
7. **Inventory 10/31/2011 in the balance sheet.**