

Questions and answers through Ch. 3 (ACCTG 2200)

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Why do we adjust under/overapplied overhead at the end? (Ch 2)

- *Why don't we adjust cost of goods sold directly?*
 - We didn't know about the cost when we set up POHR
 - We don't actually know which project caused the overhead!
 - Our application of overhead may be wrong for several reasons
- *Why do we do it at the period, rather than product level?*
 - We are simply treating the adjustment as a 'period' rather than 'product' cost.
 - If we think this difference will persist then, in subsequent periods we will adjust POHR to be more representative
- **This process emphasizes accountability for our own internal forecasts. Even good surprises can be bad.**

How does a T-account work?

The sides have goofy names (blame the French)

- Left side: Debit
- Right side: Credit

$\text{Total Assets} = \text{Total Liabilities} + \text{Total Shareholder's Equity}$

- **TL & SE** accounts increase with **Credits**
- **TA** accounts increase with **Debits**

“There’s a PEARLS method for remembering double entries as well.” (Thanks: Yin Hei Joelle)

Debit:

P: Purchases

E: Expenses

A: Assets

Credit:

R: Revenues

L: Liabilities

S: Sales

What is COGM?

- COGM: The cost of goods manufactured in the period. This is what is transferred from WIP to FG inventory
- COGS: The cost of goods sold during the period. This is what is transferred from FG inventory into the COGS accounts
- $\text{COGM} = \text{COGS}$ when you sell everything you make in the period.

How do we pick cost drivers

Good drivers are:

- Measurable
- Causal
- Simple
- We will do a lot more with picking cost drivers when we get to Activity Based Costing.

Examples:

- Direct labor
- Machine hours
- Units produced
- Size of job (e.g. square feet cleaned for some cleaning supplies)

Job order costing vs. Process costing?

- Workshop → Job order
- Factory → Process
- Giant products (Airplanes, Ships, Yachts) → Job Order
- Giant Clients (IBM-City of Rio) → Job Order

How to distinguish direct and indirect materials and labor?

- Is it easy (cost effective) to measure how much we used?
- Is there a recipe?
- Is the material or labor expensive?

How to we estimate PHOR?

Two estimates:

- Total overhead
- Total use of the driver (activity)

Use the prior period as a starting point then add information about how you think the next period will be different.

- Seasonality (use last month and this month last year)
- Marketing
- New products
- Other trends
- The estimation window (period length) should be determined by when we find out the amounts of our overheads.

How do we allocate a supervisor's time (DL or IL)

- **Rule of thumb:** It's always overhead.
- Note: In the US a “general contractor” is a type of license. This means that the person is qualified and bonded for all relevant tasks and can supervise unlicensed workers.
- She's telling people what to do, not doing it.
- Why? Because she's the BOSS.

Operations costing ... Wait whaaaaaaat?

Operations costing: Nothing new.

- Operations costing just allows some departments to use job order costing and others to use process costing.
- As we did in our process costing example we simply transfer the costs between the departments.

Insurance premiums?

What if we have a factory and headquarters?

- Insurance on the factory? MOH
- Insurance on headquarters? SG&A

What if HQ is in the factory?

- How much would you rent the HQ portion for?
- How much would you rent the factory portion for?
- Use that ratio to assign insurance to MOH and SG&A. Could also use sqft.

What happens if a manufacturer out sources manufacturing?

- If they still design the product and manage the supply chain, then they are still a manufacturer.
 - Example: Apple outsources manufacturing to Foxconn, but actively manages operations at Foxconn, controls the supply chain, and does all the design work.
 - Let's look at Fenty Beauty
- If they only buy and sell completed products they may be a merchandiser.
- What about Coca-Cola?
 - Coca-Cola does two things:
 - ① Owns "Coca-Cola" (a recipe and a brand)
 - ② Markets Coca-Cola
 - In Hong Kong *Swire* makes Coca-Cola