

Management Accounting

Week 1 Part 2

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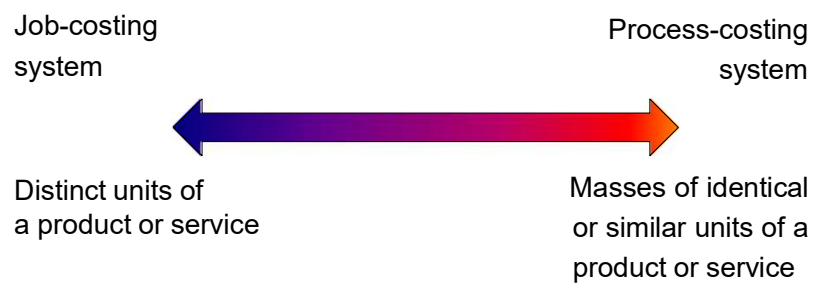
Types of firms

- Service Company : labor (Job Costing)
- Merchandiser
- Manufacturer: purchase material and convert it to goods (Process Costing)

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Job Costing and Process Costing

- Job costing: individual unit
- Process costing: batch of similar and identical units

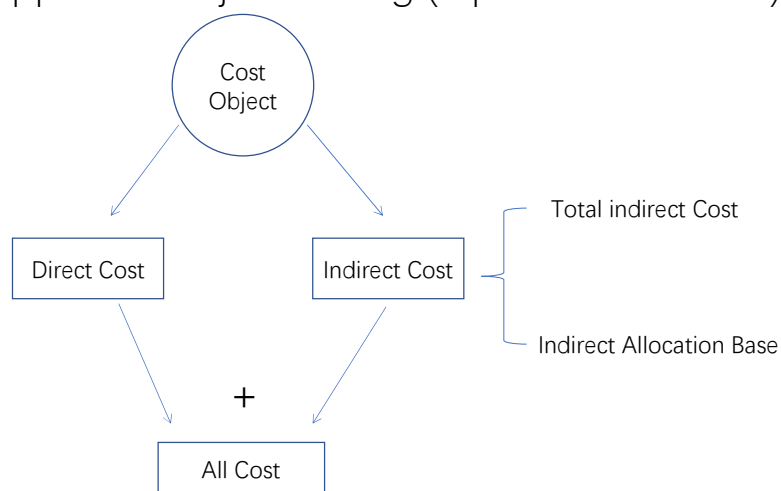


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General approach to job costing (a particular service)



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Example

- Total labor cost for Firm A in 2018 is 100,000, the labor cost for project A performed by firm A is 8000, there is no direct material cost involved in project A. The total indirect cost for the Firm A is 10000, and the allocation base is labor hours, in total there are 100 labor hours occurred in Firm A and project A used 4 hours, calculate the total cost of project A.

For manufacturing companies

- Inventoriable Cost(capitalized costs): recognized asset, cost of goods sold after transaction, and before recognized as stock
- Revenue Cost: Other cost than cost of goods sold

Classification of Manufacturing Costs(cost of a product)

- Direct material costs
- Direct manufacturing labor costs
- Indirect manufacturing costs

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Finished Goods (mobile phone)

Direct material costs
Material for the phone, chipset etc.

Direct manufacturing labor cost
Assembling workers

Indirect manufacturing costs
Factory overhead cost

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Types of Stock (manufacturing company)

First, they are capitalized costs

- Direct materials
- Work-in-progress
- Finished Good

Calculating Stock Position

General Rule: $\text{Opening} + \text{Purchase} - \text{Closing}$
= Use of Stock

E.g. there are 1000 euro direct material at the opening stock, you have purchased 6000 euro and the ending stock is 500 euro.

Exam Practice

5. For the allocation of manufacturing overhead to jobs, Brunchworld uses direct labor costs as an allocation base. The allocation rates for 2015 (overhead rates) are for department A 200% and for department B 50%.

For job nr 123, which has been processed in January 2015, the following cost figures are given:

	Department A	Department B
Direct material cost	€ 40.000	€ 10.000
Direct labor costs	€ ?	€ 30.000
Allocated manufacturing overhead	€ 40.000	€ ?

Which of the following items is right?

The total costs of job nr 123 are:

Costing System

- Cost object
- Direct cost
- Indirect cost
- Cost pool: a grouping of individual cost items (later course)
- Cost allocation base : denominator for indirect cost

Actual Costing vs Normal Costing

- The only difference is the indirect cost
- Actual Costing: using actual cost
 - ❖ Actual indirect cost rate * actual quantity
 - ❖ Disadvantage: wait until the end
- Normal Costing:
 - Budgeted Indirect Cost rate * Actual Quantity of Cost rate

$$\text{Budgeted rate} = \frac{\text{Budgeted Total Indirect Cost}}{\text{Budgeted Allocation Base}}$$

$$\text{Actual rate} = \frac{\text{Actual Total Indirect Cost}}{\text{Actual Allocation Base}}$$

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Normal Costing

Total labor cost for Firm A in 2018 is 100,000, the labor cost for project A performed by firm A is 8000, there is no direct material cost involved in project A. The total indirect cost for the Firm A is 10000, and the allocation base is labor hours, in total there are 100 labor hours occurred in Firm A and project A used 4 hours, calculate the indirect cost of project A under actual costing

Assume the budgeted total indirect cost is 12000, and the budgeted total hour is 96, what is the indirect cost under normal costing for project A

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- Indirect cost under actual costing = 400
- Indirect cost under normal costing=500

Over-allocation of cost

Exam Practice

El Paraiso uses a normal costing system with a single manufacturing overhead cost pool and labor-hours as the allocation base. The following data are for 2015:

Budgeted manufacturing overhead	€ 9.800.000
Budgeted machine-hours	80.000
Budgeted labor-hours	90.000
Manufacturing overhead incurred	€ 9.300.000
Actual machine-hours	85.000
Actual labor hours	92.000

- 1) The under-allocated overhead is € 60.000
- 2) The under-allocated overhead is € 300.000
- 3) The over-allocated overhead is € 717.778
- 4) The over-allocated overhead is € 60.000

End of Period Adjustment

- Adjusted Allocation Rate Approach
- Immediate write-off of Cost of goods sold
- Proration Approach (specifically to manufacturing company)

Proration Approach- Manufacturing

- Based on Ending balance or Amount Allocated
- Total under-allocated amount: 2000

Ending Balance Method

	Ending Balance	Percentage	Adjustment
Working in Progress	10000	50%	
Finished Goods	5000	25%	
Cost of goods sold	5000	25%	
Total	20000	100%	

Amount Allocated Method

	Amount Allocated	Percentage	Adjustment
Working in Progress	3000	60%	
Finished Goods	1000	20%	
Cost of Goods Sold	1000	20%	
Total	5000	100%	

Exam Practice 2019 BA midterm Q6-Q9