

# Management Accounting

## Week 1 Part 3

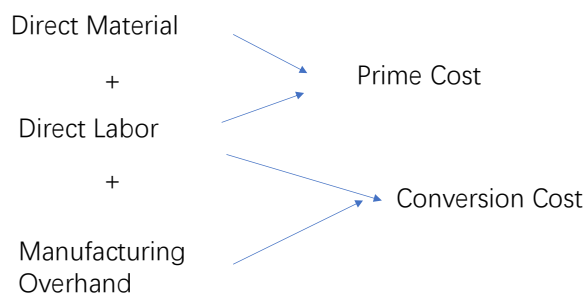
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## Manufacturing company (Cost of Goods sold)

- Prime Cost: Direct material cost + Direct labor Cost
- Conversion Cost: all cost other than material cost



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## Exam Practice

Which of the following statements is true?

- 1) The term 'Prime costs' refers to all direct manufacturing costs, while the term 'Conversion costs' refers to all manufacturing costs other than direct materials costs
- 2) The term 'Prime costs' refers to all indirect manufacturing costs, while the term 'Conversion costs' refers to all manufacturing costs other than direct materials costs
- 3) The term 'Prime costs' refers to all direct selling costs, while the term 'Conversion costs' refers to all manufacturing costs other than direct materials costs
- 4) The term 'Prime costs' refers to all direct costs, while the term 'Conversion costs' refers to all selling costs other than direct materials costs

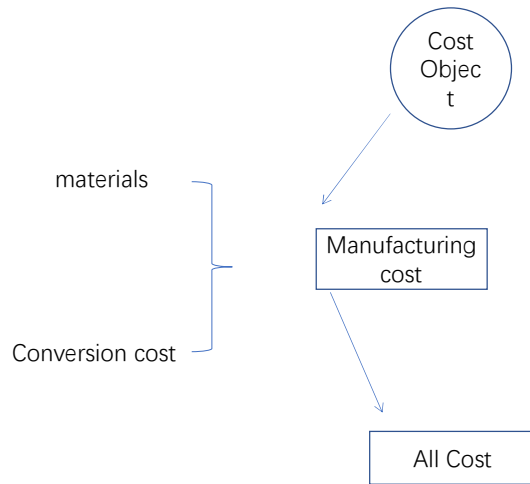
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## Process Costing

- Each unit has identical cost
- Unit cost obtained = total cost/ number of units
- E.g. manufacturing a large portion of computers

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## Process Costing



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Manufacturing  
cost

Material

Conversion Cost

=

=

Total material cost / total number of units Total conversion cost / total number of units

E.g. The total material cost for producing 100 units of computer is 10000,  
Cost per unit =  $10000 / 100 = 100$

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- Key Problem

During the manufacturing process, some are finished, some are just half way through the process.

E.g. 10000 euros are paying for the workers to work on 100 computer, however, only 50 are manufactured, the other 50 are only 30 percent complete.

## Equivalent Units

- How many units will be equivalently produced by the amount of resources
- In this case, 50 computer of 30 percent completed = 15 computer fully manufactured
- Total equivalent units produced =  $15 + 50 = 65$
- Cost per unit =  $10000/65 = 153.8$

## WA & FIFO Illustration

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## Weighted Average method

**Regardless of work done in which period**

**Equivalent unit = Final stock + completed work**

**Unit cost = Total cost/Equivalent Unit**

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Physical amount		Direct Material	Conversion Cost
Work in progress (DM 100 %, conversion 40%), opening	60		
Start in this period	140		
Finished and Transferred out	120		
Working in Progress, closing, (DM 100%, conversion 50%)	80		
Equivalent units			
		Direct Material	Conversion Cost
Opening Stock cost		1200	1500
Cost Added in the period		3500	4500

### Final stock + completed work

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### Weighted Average method

		Direct Material	Conversion Cost
Opening Stock cost		1200	1500
Cost Added in the period		3500	4500
Equivalent units			

### Manufacturing Cost Per Unit

=

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## FIFO method

Only Care the work you did in this period!

Equivalent Unit = Total Equivalent Unit – Equivalent Unit from last month

Unit Cost = Total Cost this month/ Equivalent Unit this month

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Physical amount		Direct Material	Conversion Cost
Work in progress (DM 100 %, conversion 40%), opening	60	60	24
Start in this period	140		
Finished and Transferred out	120	120	120
Working in Progress, closing, (DM 100%, conversion 50%)	80		80*0.50= 40
Equivalent units total		200	160
Equivalent units FIFO			
		Direct Material	Conversion Cost
Opening Stock cost		1200	1500
Cost Added in the period		3500	4500

Only Care the work you did in this period!

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## FIFO Method

		Direct Material	Conversion Cost
Cost Added in the period		3500	4500
Equivalent units			

Manufacturing Cost Per Unit

=

## Transferred in Cost

- Costing within company, related to two or more department
- Treated it as direct material



## Practice on the spot (whole exam will be given)

### Assignment 1: (max. 25 points, 5 points per sub question)

The information below pertains to October production at Zippy Company's bottling plant, which produces and bottles sports drinks. Each unit consists of a case of 12 bottles:

	Units	Materials	Conversion
Work in process, October 1	2.000	70% complete	60% complete
Started in October	10.000		
To account for	12.000		
Completed and transferred out	8.000	100% complete	100% complete
Work in process, October 30	4.000	40% complete	25% complete
Accounted for	12.000		
Costs, beginning of October		\$ 1.050	\$ 3.240
Added during October		\$ 8.200	\$ 22.620
To be accounted for		\$ 9.250	\$ 25.860

a) Using the weighted-average method, determine the number of equivalent units of production for materials and conversion during October

## Practice on the spot

### Assignment 1: (max. 25 points, 5 points per sub question)

The information below pertains to October production at Zippy Company's bottling plant, which produces and bottles sports drinks.

Each unit consists of a case of 12 bottles:

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Work in process, October 30	4.000	40% complete	25% complete
Accounted for	12.000		
Costs, beginning of October		\$ 1.050	\$ 3.240
Added during October		\$ 8.200	\$ 22.620
To be accounted for		\$ 9.250	\$ 25.860

b) Determine the cost per equivalent unit for materials and conversion for October and the total cost per equivalent unit (Round to two digits after the decimal point)

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Work in process, October 30	4.000	40% complete	25% complete
Accounted for	12.000		
Costs, beginning of October		\$ 1.050	\$ 3.240
Added during October		\$ 8.200	\$ 22.620
To be accounted for		\$ 9.250	\$ 25.860

c) Determine whether the cost per equivalent unit for materials and conversion increased or decreased from the previous month

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To be accounted for		\$ 9.250	\$ 25.860

d) Compute the costs of goods transferred out and the ending work in process for the month of October using the weighted average method

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## Practice on the spot

### Assignment 1: (max. 25 points, 5 points per sub question)

The information below pertains to October production at Zippy Company's bottling plant, which produces and bottles sports drinks.

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To be accounted for		\$ 9.250	\$ 25.860

e) Compute the costs of goods transferred out and the ending work in process for the month of October using the FIFO method

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