

Cost accounting manual assignment

Business



Expenditure that can be attributed to a specific cost unit, for example material that forms part of a product. Total of direct material, direct labor and direct expenses. O For Suggestions & Feedbacks, contact: ATTACH SHAH

Indirect cost or overhead Expenditure on labor, materials or services that cannot be economically identified with a specific sellable cost unit. Product cost Cost of a finished product built up from its cost elements. Period cost Cost relating to a time period rather than to the output of products or services.

Fixed cost Cost incurred for an accounting period, that, within certain output or turnover limits, tends to be unaffected by fluctuations in the levels of activity (output or turnover) Fixed costs are the same, no matter how many units are produced. Note, however, that as the number of units increases, the fixed cost per unit actually decreases. This concept may seem confusing at first and it's best to think in terms Of numbers. XX XX Fixed cost (RSI) 50, 000 50, 000 No of units produced 500 1, 000 (Units have increased) Fixed cost per unit AD, ton. F units) 100 50 (Cost per unit has decreased) Even though the costs are fixed, we still sometimes look at the cost per unit. Don't let this confuse you – total fixed costs are fixed and do not vary with activity levels. Variable cost Cost that varies with a measure of activity. Semi-variable cost Cost containing both fixed and variable components and thus partly affected by a change in the level of activity. Relevant cost of an asset Represents the amount of money that a company loud have to receive if it were deprived of an asset in order to be no worse off than it already is.

We can call this the deprived value. Example: Deprived value of an asset A machine cost RSI: 14, 000 ten years ago. It is expected that the machine will

generate future revenues of RSI: 10, 000. Alternatively, the machine could be scrapped for RSI: 8, 000. An equivalent machine in the same condition would cost RSI: 9, 000 to buy now. What is the deprived value of the machine? Solution Firstly, let us think about the relevance of the costs given to us in the question. Cost of machine RSI: 14, 000 past/sunk cost

Future revenues = RSI: 10, 000 = revenue expected to be generated
 Net realizable value = RSI: 8, 000 = scrap proceeds
 @ For Suggestions & Feedbacks, contact: ATTACH SHAPE Replacement cost RSI: 9, 000
 When calculating the deprived value of an asset, use the following diagram.
 LOWER OF REPLACEMENT HIGHER OF COST (RSI: 10, 000) (RSI: 9, 000) N REV
 EXPECTED REVENUES (RSI: 8, 000) Therefore, the deprived value of the machine is the lower of the replacement cost and RSI: 10, 000. The deprived value is therefore RSI: 9, 000.
 Relevant range Apportion Re-apportion
 Overhead absorption rate Marginal cost Contribution Marginal (or variable)
 FIFO (first in, first out) 5 Activity levels within which assumptions about cost behavior in breakable analysis remain valid
 The relevant range also broadly represents the activity levels at which an organization has had experience Of operating at in the past and for which cost information is available. It can therefore be dangerous to attempt to predict costs at activity levels which are outside the relevant range. To spread indirect reeve uses or costs over two or more cost units, centers, accounts or time periods. The re-spread of costs apportioned to service departments to production departments.

A means of attributing overhead to a product or service, based for example on direct labor hours, direct labor cost or machine hours. There are a number

of different bases of absorption (or ‘overhead recovery rates’) which can be used. Examples are as follows. 1- CA percentage of direct materials cost 2- A rate per machine hour 3- CA percentage of direct labor cost 4- CA rate per direct labor hour 5- CA percentage of prime cost CLC rate per unit Part of the cost of one unit of product or service that would be avoided if the unit was not produced, or that would increase if one extra unit were produced.

Sales value – variable cost of sales Assigns only variable costs to cost units while fixed costs are written Off as period costs. Used to price issues of goods or materials based on the cost LIFO (last in, first out) Average cost Cost-volume-profit analysis (CAP Breakable point C/S ratio (PA/ ratio) Margin of safety Limiting factor or key factor Standard cost Standard costing Management by exception Performance standard 6 of the oldest units held, irrespective of the sequence in which the actual issue of units held takes place. Closing stock is, therefore, valued at the cost of the oldest researches.

Used to price issues of goods or materials based on the cost of the most recently received units. Cost of sales in the income statement is, therefore, valued at the cost of the most recent purchases. Used to price issues of goods or materials at the weighted average cost of all units held. Study of the effects on future profit of changes in fixed cost, variable cost, sales price, quantity and mix. Level Of activity at which there is neither profit nor loss. A measure Of how much contribution is earned from each RSI: 1 of sales. Indicates the percentage by which forecast revenue exceeds r falls short of that required to break even.

As well as being interested in the breakable point, management may also be interested in the amount by which actual sales can fall below anticipated sales without a loss being incurred. This is the margin of safety. Anything which limits the activity of an entity. An entity seeks to optimize the benefit it obtains from the limiting factor. Examples are a shortage of supply of a resource or a restriction on sales demand at a particular price. It is assumed in limiting factor analysis that management wishes to maximize profit and that profit will be maximized when contribution is maximized (given no change in fixed cost expenditure incurred).

In other words, marginal costing ideas are applied. Planned unit cost of a product, component or service. Control technique that reports variances by comparing actual costs to pre-set standards so facilitating action through management by exception. Practice of concentrating on activities that require attention and ignoring those which appear to be conforming to expectations. Typically standard cost variances or variances from budget are used to identify those activities that require attention. Ideal standards are based on the most favorable operating conditions, with no wastage, no inefficiencies, no idle time and no breakdowns.

These standards are likely to have an @ For Suggestions & Feedbacks, contact: TALLEST SHAFT Variance Direct material total Variance Direct material price variance Direct material usage Direct labor total Direct labor rate Direct labor efficiency variance Direct labor idle time 7 unfavorable motivational impact, because employees will often feel that the goals are unattainable and not work so hard. Attainable standards are based on efficient (but not

reflect) operating conditions. Some allowance is made for wastage, inefficiencies, machine breakdowns and fatigue.

If well-set they provide a useful psychological incentive, and for this reason they should be introduced whenever possible. The consent and co-operation of employees involved in improving the standard are required. Current standards are standards based on current working conditions (current wastage, current inefficiencies). The disadvantage of current standards is that they do not attempt to improve on current levels of efficiency, which may be poor and capable of significant improvement. Basic standards are standards which are kept unaltered over a long period of time, and may be out-of-date.

They are used to show changes in efficiency or performance over an extended time period. Basic standards are perhaps the least useful and least common type of standard in use. The difference between a planned, budgeted, or standard cost and the actual cost incurred. The same comparisons may be made for revenues. Measurement of the difference between the standard material cost of the output produced and the actual material cost incurred. Difference between the actual prices paid for the purchased trials and their standard cost.

Measures efficiency in the use of material, by comparing standard material usage for actual production with actual material used, the difference is valued at standard cost. Indicates the difference between the standard direct labor cost of the output which has been produced and the actual direct labor cost incurred. Indicates the actual cost of any change from the standard

labor rate of remuneration. Standard labor cost of any change from the standard level of labor efficiency. Occurs when the hours paid exceed the hours worked and there is an extra cost caused by this idle time.

Its computation increases the accuracy of the labor efficiency Variance.

Variable production overhead total variance Measures the difference between variable overhead that should be used for actual output and variable production Overhead actually used. Variable production overhead Indicates the actual cost of any change from the standard expenditure variance rate per hour. Variable production OVA Standard variable overhead cost of any change from the efficiency variance standard level of efficiency. Sales price variance Change in revenue caused by the actual selling price differing from that budgeted.

Sales volume The sales volume variance in units is the difference between contribution the actual units sold and the budgeted quantity. This variance in units can be valued in one of three ways: ; In terms of standard revenue, ; Standard gross margin or ; Standard contribution margin. (a) At the standard gross profit margin per unit. This is the sales volume profit variance and it measures the change in profit (in an absorption costing system) caused by the sales volume differing from budget. (b) At the standard contribution per unit. This is the sales volume contribution