COST ACCOUNTING

COST ACCOUNTING MEANING

- Cost accounting is a branch of accounting that focuses on the systematic recording, analysis, and interpretation of costs associated with the production of goods or services within an organization.
- Its primary purpose is to provide management with accurate and relevant information for decision-making, cost control, and performance evaluation.

FIFO AND LIFO

- FIFO and LIFO are methods used in the cost of goods sold calculation. FIFO ("First-In, First-Out") assumes that the oldest products in a company's inventory have been sold first and goes by those production costs.
- The LIFO ("Last-In, First-Out") method assumes that the most recent products in a company's inventory have been sold first and uses those costs instead.

FIFO (First-In-First-Out) Method Example

Date	Units Purchased	Units Sold	Cost Per Unit	Total
August 1st	20		5	100
August 2nd	15		10	150
August 3rd		15	5	75
August 4th		10	5 (5) 10 (5)	75

LIFO (Last-In-First-Out) Method Example

Year	Units Purchased	Units Sold	Cost Per Unit	Total
2017	150		1	150
2018	150		1.10	165
2019	150		1.15	172.5
2020		350	1.15 (150) 1.10 (150) 1 (50)	387.5

Economic Order Quantity

- The Economic Order Quantity (EOQ) is the optimal order quantity that minimizes the total inventory holding costs and ordering costs for a business.
- It's a key inventory management concept that aims to balance the costs associated with holding inventory (storage, insurance, obsolescence) and the costs of ordering or setting up for production.
- In short, EOQ helps organizations determine the ideal quantity to order in order to minimize overall inventory costs.

Weighted Average Method

- The Weighted Average Method, also known as the Weighted Average Cost Method, is an inventory valuation technique used in accounting.
- In short, this method calculates the average cost of inventory items based on both the cost and quantity of each item.
- The formula for weighted average cost is:
- Weighted Average
- Cost=Total Cost of InventoryTotal Quantity of Inventor yWeighted Average Cost=Total Quantity of InventoryTo tal Cost of Inventory

Transactions for June	Quantity Change	Actual Unit Cost	Actual Total Cost
Beginning inventory (1 June)	+150	$220	$33,000
Sale	-125	n/a	n/a
Purchase	+200	$270	$54,000
Sale	-150	n/a	n/a
Purchase	+100	$290	$29,000
Ending inventory (30 June)	Units 175		

Overheads

- Overheads, in a business context, refer to indirect costs or expenses that are not directly tied to the production of a specific product or service.
- These costs do not vary proportionally with the production volume and are incurred to support overall business operations.
- Examples of overheads include rent, utilities, administrative salaries, and other general expenses. In short, overheads represent the indirect costs necessary to run a business but are not directly attributable to a particular product or service.
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Statement Showing Distribution of Overheads

Expenses	Basis of distribution	Total	A	B	C	D	E
Rent	Area Occupied (4:5:6:4:1)	10000	2000	2500	3000	2000	500
Depreciation	Value of Machine (12:16:20:1:1)	20000	4800	6400	8000	400	400
Motive Power	H.P. of machine (6:3:5:1)	3000	1200	600	1000	200	
Indirect wages	Direct Wages (6:4:6:3:1)	23000	6900	4600	6900	3450	1150
lighting	Light Points (2:3:4:2:1)	2400	400	600	800	400	200
Supervisor's Salary	No of Workers (5:4:6:3:2)	16000	4000	3200	4800	2400	1600
Direct Wages	Actual	2000				1500	500
	Total overheads	76400	19300	17900	24500	10350	4350

Contract costing

- Contract costing is an accounting method used to track and allocate costs associated with specific contracts or projects.
- In short, it involves assigning costs directly related to a particular contract, such as materials, labor, and overhead, to determine the total cost incurred in fulfilling that specific project.
- This method provides a way for businesses, particularly in construction and other project-based industries, to monitor and manage costs on a project-by-project basis.
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Contract No. 50 Account			
	$		$
To Materials Issued	76,000	By Materials to Store	6,000
To Direct Wages	80,000	By Value of Plant Returned to Store	12,000
To Cost of Special Plant	20,000	By Contractee's A/c (Contract Price)	200,000
To Chargeable Expenses	7,000		
To Establishment Charges	5,000		
To Profit and Loss Account	30,000		
	218,000		**218,000**

Contractee's Account					
2020		**$**	**2020**		**$**
March	To Contract No. 50 A/c	200,000	**March**	By Bank A/c	200,000
31	(Contract Price)		**31**		
		200,000			**200,000**

Process costing

- Process costing is an accounting method used to allocate production costs to products that are produced in a continuous or repetitive manufacturing process.
- In short, it involves averaging the costs over all units produced during a specific time period.
- This method is often used in industries where products are homogeneous and pass through a series of processes with little differentiation between individual units.
- The total production costs are divided by the total number of units produced to calculate a cost per unit.
- Process costing is particularly common in industries such as chemicals, food manufacturing, and textiles.
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Job costing

- Job costing is an accounting method used to track and allocate costs to individual jobs or projects.
- In short, it involves assigning direct and indirect costs to a specific job or project to determine the total cost associated with its completion.
- This method is commonly used in industries where each unit or project is unique and requires separate cost tracking, such as construction, custom manufacturing, and consulting services.
- Job costing provides detailed insights into the costs incurred for each job, aiding in pricing decisions, project management, and overall cost control.
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Problem 1

Job No. 58 passes through three departments: X, Y, and Z. The following information is given regarding this job:

	Departments		
	X	Y	Z
Materials issued to job	$8,000	$1,000	$500
Direct labor hours for job	1,000	2,000	5,000
Rate of direct labor per hour	$1.00	$1.50	$2.00
Sale of scrap materials arising from job	$1,000	$150	$100
Total overhead for the departments	$10,000	$15,000	$25,000
Total labor hours for the departments	10,000	30,000	40,000

Required: Calculate the cost of Job No. 58 from the above figures.

Solution

Job Cost Sheet			
			$
Materials (Less Scrap):	$		
Dept. X	7,000		
Dept. Y	850		
Dept. Z	400		8,250
Direct Wages:			
Dept. X: 1,000 hours @ $1 per hour	1,000		
Dept. Y: 2,000 hours @ $1.50 per hour	3,000		
Dept. Z: 5,000 hours @ $2 per hour	10,000		14,000
		Prime Cost	**22,250**
Overheads:	$		
Dept. X	1,000		
Dept. Y	1,000		
Dept. Z	3,125		5,125
		Total Cost	**27,375**

Note: Calculation of overheads chargeable to Job No. 58 was made as follows:

Department X:

$$= \frac{\text{Total overheads in Dept.}}{\text{Total labor hours in Dept.}} \times \text{Labor hours in Dept. for job No. 58}$$

$$= \frac{10{,}000}{10{,}000} \times 1{,}000 = \$1{,}000$$

Department Y:

$$= \frac{15{,}000}{30{,}000} \times 2{,}000 = \$1{,}000$$

Department Z:

$$= \frac{25{,}000}{40{,}000} \times 5{,}000 = \$3{,}125$$