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| 14774 | | COST ACCOUNTING |

***Q1 ANSWER:-*** ***INVENTORY:-***

* ***DEFINITION:-***

Inventory is the array of the finished goods or goods used in production held by a company. Inventory is an accounting term that refers to goods that are in various stages of being made ready for sale, including finished goods, work in progress and raw material.

* ***EXAMPLE:-***

Motherboard warehoused at a computer company to be used in the assembling of its computer systems are inventory.

***Q2 ANSWER:-*** ***DIFFERENCE BETWEEN PLANNING AND CONTROLLING:-***

1. ***PLANNING DEFINITION:-***

A process that includes defining goals, establishing strategy and developing plans to coordinate activities.

* ***FUNCTION:-***

Planning is about looking ahead.

* ***PROCESS:-***

It is the first process of building a business.

* ***FEATURES:-***

Planning, arranging, employees, direction.

* ***EXPLANATION:-***

Managerial accountants plan future activities for the company in order to maximize the financial benefits received and minimize financial consequences. Financial benefits include revenues and gains on fixed asset sales. Financial consequences include expenses, capital expenditures and income tax liability. Managerial accountants meet with department managers throughout the company to determine realistic expenses for the following year. Planning activities mostly include budging, capital expenditure analysis and production planning.

1. ***CONTROLLING DEFINITION:-***

Monitoring activities to ensure them are being accomplished as planned and correcting any significant deviations.

* ***FUNCTION:-***

Controlling is looking back.

* ***PROCESS:-***

It is the last structure of any business.

* ***FEATURES:-***

Control all the planning features.

* ***EXPLANATION:-***

Management accountants control department activities in order to evaluate the performance of each area. This allows management to determine if the actual activities tie in the planned activities for each department or each capital expenditure. Managerial accountants control company activities by comparing actual results with the predicted results. Management accountants prepare monthly budget reports by listing actual expenses and budgeted expenses then compare with each other.

***Q3 ANSWER:-***

1. ***APPLIED FACTORY OVERHEAD:-***

Applied overhead is the amount of overhead cost that has been applied to a cost object. Applied overhead include any cost that cannot be directly assigned to a cost object such as rent, administrative staff compensation and insurance.

* ***EXAMPLE:-***

A business applies overhead to its products based on standard overhead application rate of $25 per hour of machine time used. Since the total amount of machine hours used in the accounting period was 5000 hours the company applied $125000 of overhead to the units produced in that period.

1. ***ESTIMATED FACTORY OVERHEAD:-***

It is the estimated cost per unit divide the total costs by the estimated production run.

* ***EXAMPLE:-***

Let say your total factory over head is 10000 units. Divide $30000 by 10000 units to get your per unit factory overhead cost of $3.

Another example clear that If the estimated expense is $300000 and the company intends to produce250000 units during the next period each completed unit would be charged with $1.20 as its share of factory overhead. An order with 1000 completed would be charged with $1200 of factory overhead.

***Q4(i) ANSWER:-*** COST OF GOODS SOLD STATEMENT:-

Accounting department of Ruthven Company

Cost Of Goods Sold Statement

For the year ended December 31, 19

1. ***Direct material***

Material inventory Jan1, 19 $8000

Purchases $36,000

Material available for use $44,000

Less material inventory Dec 31, 19 8,000

Direct material consumed $36,000

1. ***Direct labor*** 15,000
2. ***Factory overhead*** 2/3 x 15,00 = 10,000

Total manufacturing cost $61,000

1. ***Add work in process inventory Jan 1, 19*** 8,000

$69,000

Less work in process Dec 31, 19 15,000

Cost of goods manufactured $54,000

1. ***Add finished goods inventory Jan 1, 19***  7,000

Cost of goods available for sale $61,000

Less finished goods inventory Dec 31, 19 10,200

cost of goods sold $50,800

***Q4(ii) ANSWER:-*** Accounting Department Of Ruthven Company

Income Statement

For The Year Ended Dec 31, 19

Sales $72,000

less cost of goods sold 50,800

Gross profit $21200

Less Commercial Expenses:-

Marketing expenses 5/100 x 72000 = 3600

Administrative expenses 1/100 x 72000 = 720 $4320

Income from operations $16880

Other expenses 3600

Net income $13280

* ***HOW I SOLVE COST OF GOODS SOLD STATEMENT:-***

First of all I write the name of the company (accounting department of Ruthven company), cost of goods sold statement and for the year ended at the top middle of the page. Then I add up beginning material inventory (8000) with purchase (36000) and material available for use comes (44000) from both values. Then I subtract material available for use (44000) from ending inventory (8000) and direct material consumed (36000) comes from both values. Then I add direct material consumed with direct labor (15000) and factory overhead (10000 which comes from 2/3 x 15000) and total manufacturing cost (61000) comes from both values. The add beginning work in process (8000) with total manufacturing cost (61000) and 69000 value comes. Then ending work in process (15000) I subtract from 69000 and cost of goods manufactured (54000). After this I add beginning finished goods inventory (7000) with cost of goods manufactured and cost of goods available for sale comes (61000). Then I subtract cost of goods available for sale from ending finished goods inventory (10200) and cost of goods sold comes from both values subtraction.

* ***NOTE:-***  the dates not mention in question but I take date for beginning and ending inventory for my understanding.
* ***HOW I SOLVE INCOME STATEMENT:-***

First of all I write the name of the company (accounting department of Ruthven Company), income statement and for the year ended. Then I subtract sales (72000) from cost of goods sold (50800 value comes from CGS) and gross profit (21200) comes from both values. Then I add less commercial expenses(marketing expenses 3600 and administrative expenses 720) with each other and then subtract it from the gross profit (21200) and income from operations (16880) comes and after this I subtract income from operations from other expenses and net income (13280) comes.

* ***NOTE:-*** the dates not mention in question but I take dates for my understanding.

1. ***DIRECT MATERIALS:-***

Direct materials are those materials and supplies that are consumed during the manufacturing of a product and which are directly identified with that product. It includes beginning inventory, purchases, any purchases returns or allowances and ending inventory.

* ***EXAMPLE:-***

In building bricks can be easily identify. Bricks are material and building is the finished goods.

1. ***DIRECT LABOR:-***

Direct labor indicating the cost of those employees whose work can be identified directly with the product manufactured or paying to the labor who directly related to the product manufacture or making.

* ***EXAMPLE:-***

Tailor stitching shirt for me so tailor directly related to the product manufacturing that is shirt and I know that unit cost incurred on it and pay to him.

1. ***FACTORY OVERHEAD:-***

Factory overheads are the all those costs that assist in an indirect manner in the manufacturing of the product. Factory overhead is generally defined as indirect material, indirect labor and all other factory expenses that cannot conveniently be identified with non-charged directly to specific jobs or products or final cost objects such as government contracts.

* ***EXAMPLE:-***

factory supplies and depreciation of machinery, electricity bills, gas bills.

1. ***WORK IN PROCESS:-***

Work in process representing the costs in process at the beginning and costs still in process at the end of the fiscal period. Work in process inventory is materials that have been partially completed through the production process. These items are typically located in the production area though they could also be held to one side in a buffer storage area. The cost of work in process typically includes all of the raw material cost related to the final product.

* ***EXAMPLE:-***

an example of work in process include manufactured goods.

1. ***FINISHED GOODS:-***

Finished goods are goods that have been completed by the manufacturing process or purchased in a completed form but which have not yet been sold to customers. The cost of finished goods inventory is considered a short term asset.

* ***EXAMPLE:-***

In accounting record as a example then finished goods inventory is considered as item in the company’s records. Let’s us use an example of craft store.

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