NAME: YASNA SYED

ID: 15094

SUBJECT: COST ACCCOUNTING

SEMESTER: 4TH

**Cost Accounting** is concerned with recording classifying and summarizing cost determination of cost products or services, planning, controlling and reducing such costs and furnishing of information to management for decision making. In this subject we have studied about many things like: **Planning, controlling and organizing:-** Planning, controlling and organizing are the essential parts of any organization. Without proper planning, controlling and organizing an organization will face many kind of difficulties. **Planning** is decision making, regarding the goals and setting the future course of action from a set of alternative to reach them. And **Controlling** involves the steps taken by management to achieve the desired goals and to make sure that all parts of organization is working together toward that goal. On the other hand **Organizing** is essentially the establishment of the framework within which required activities are to be performed and by whom. We studied about the organization charts. An **organization chart** is essential to the development of a cost system and cost reports which parallel the responsibilities of individuals for implementation of management plans.

We also studied about the financial statements which include **The balance sheet (**shows financial position of the company**) Income Statement (** Often labeled the earnings statement**)**and Cost of goods sold statement.

**Cost of goods sold (COGS)** refers to the direct costs of producing the goods sold by a company. Cost of goods sold also referred to as “ cost of sales”. The cost of goods sold section of the income statement of any other manufacturing business can be divided into five distinct parts, Direct Material section, Direct labor section, Factory Overhead, Work in process inventories and finished goods inventories.

**Direct Material:-** Direct Material refers to the raw material that are directly used in the production process of goods or services of a company.

**Direct Labor:-** Direct labor is production or services labor that is assigned to a specific product, cost center, or work order.

**Factory Overhead:-** Factoryoverhead is the costs incurred during the manufacturing process, not including the costs of direct labor and direct materials.

**Work in process:-** Work in process includes the cost of raw materials plus the cost of any labor or additional overheads incurred when producing an incomplete product.

**Finished goods inventories:-** In this part all the work on the inventory is completed, and it is turned into the finished goods and is ready to be sold.

The other topic which we have studied in financial accounting is financial ratios.

**Financial Ratios:-** Financial ratios are created with the use of numerical values taken from financial statements to gain meaningful information about a company. Financial ratios are grouped into following categories:

Liquidity ratios

Leverage ratios

Efficiency ratios

Profitability ratios

Market value ratios

**Liquidity Ratios:-** Liquidity ratios are financial ratios that measure a company’s ability to repay both short-term and long-term obligations. Common liquidity ratios include the following

1. **Current ratio:-**

The current ratio measures a company’s ability to pay off short-term liabilities with current assets:

**Current ratio= Current assets /Current liabilities**

1. **Acid Test Ratio:-**

The Acid-test ratio measures a company’s ability to pay off short-term liabilities with quick assets

**Acid-test ratio= Current assets –Inventories/Current liabilities**

1. **Cash ratio:-**

The cash ratio measures a company’s ability to pay off short-term liabilities with cash and cash equivalents

**Cash ratio= cash and cash equivalents/Current liabilities**

1. **Operating cash flow ratio:-**

The operating cash flow ratio is a measure of the number of times a company can pay off current liabilities with the cash generated in a given period

**Operating cash flow ratio= Operating cash flow/Current liabilities**

**Leverage financial Ratios :-**

Leverage ratios measure the amount of capital that comes from debt. Common leverage ratio formulas are given below

1. **Debt ratio =** total liabilities /total assets
2. **Debt to equity ratio=** total liabilities / Shareholder’s equity
3. **Interest coverage ratio=** Operating income / Interest expenses
4. **Debt service coverage ratio=** Operating income / Total debt service

**Efficiency Ratios:-**

Efficiency ratios, also known as activity financial ratios, are used to measure how well a company is utilizing its assets and resources. Common efficiency ratios are given below

1. Asset turnover ratio= Net ratio/ Total assets
2. Inventory turnover ratio= Cost of goods sold / Average inventory
3. Receivables turnover ratio= Net credit sales/ Average accounts receivable
4. Days sales in inventory ratio= 365days/ Inventory turnover ratio

**Profitability Ratios**

Profitability ratios measure a company’s ability to generate income relative to revenue, balance sheets, operating costs, and equity. Common profitability financial ratios are, Gross margin ratio, operating margin ratio and return on equity ratio.

**Market Value Ratios**

Market value ratios are used to evaluate the share price of a company’s stock. Common market ratios are Book value per share ratio, Dividend yield ratio, Earning per share ratio and the price earning ratio.

We have also studied about cost of production report (CPR)

**The cost of production report** is a document used in process costing system that summarizes the information about the flow of units and costs through the work in process account of processing department. Cost of production shows:

1. Total unit costs transferred to it from a preceding department.
2. Material , labors and factory overhead added by the department
3. Unit cost added by the department
4. Total and unit costs accumulated to the end of the operation
5. The cost of the beginning and ending work in process inventories.
6. Cost transferred to a succeeding department or to a finished goods storeroom

A cost of production report consists of the following three parts

1. Quantity schedule section
2. Cost per equivalent unit section
3. Cost reconciliation section

**Quantity schedule Section:-**

Quantity schedule is the first section of a cost of production report. This section summarizes the flow of physical units through the relevant processing department and shows the equivalent units for material and conversion costs. The percentage of completion of any units in work in process beginning and ending inventory is also shown in this section. The quantity schedule also guides in preparing the other two sections of the cost of production report.

**2) Cost per equivalent unit section**

In this section, the cost per equivalent unit is computed. Under weighted average method, it is done by dividing the total of beginning inventory cost and cost added during the period by the equivalent units of production computed under weighted average method.

3) Cost reconciliation section

In this section, the cost charged to the department is reconciled or accounted for. Usually, the total cost charged to a department consists of the following:

1. Cost of beginning work in process inventory
2. Materials, labor overhead costs incurred by the department during current period
3. Cost transferred in from preceding department during the period

The total of above costs is accounted for by computing the following amounts:

1. Cost of units transferred to the next department or finished goods storeroom.
2. Cost in ending work in process inventory.