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**SUBJECT: COST ACCOUNTING**

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**FINAL TERM PAPER**

**BBA 4TH SEMESTER**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Blending | Testing | Terminal |
| Units started in process | 8,000 |  |  |
| Units received from preceding department |  | 5,300 | 3,250 |
| Units transferred to next department | 5,300 | 3250 |  |
| Units transferred to finished good store room |  |  | 1900 |
| Units still in process | 2400 | 1700 | 900 |
| Units lost in process | 300 | 350 | 450 |
|  | 8000 | 5300 | 3250 |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | blending | dep | testing | dep | terminal | dep |
|  | material | Labor and FOH | Prior department and material | Labor and FOH | Prior department and material | Labor and FOH |
| Transferred out | 5,300 | 5300 | 3250 | 3250 | 1900 | 1900 |
| Units still in process | 0.90 ×24002160 | 2/3 ×24001600 | 1700 | 3/4 × 17001275 | 900 | 3/4 × 900675 |
|  | 7460 | 6900 | 4950 | 4525 | 2800 | 2575 |

**3) Unit cost of factory overhead in terminal department=**

5000/ 2575 = 1.941

**4) Lost unit cost in the terminal department, if the unit cost transferred in from the blending department is $5**

5300 × 5 = 26500 cost transferred in from blending department

Testing department unit lost= 350

5300-350 = 4950

26500/ 4950 = 5.3535 new unit cost

Old unit cost = 5

Lost unit cost =

5.3535 – 5 = 0.3535

**QUESTION 2: What is job order costing, explain with example:**

For example principle ordered teachers to take these classes. These classes are allocated which is called job allocation. English teacher is assigned with 2 jobs. English teacher is our business. Classes are our clients. Business needs to satisfy clients because clients have given job.

Another example can be taken of manufacturing company that makes shirt. Company named each order as JOB A, JOB B AND JOB C. each job is separate. in job costing we have to do costing of these particular jobs that in job A what cost incurred in making 500 shirts, same for B and C. job costing is specific order from customer. Job costing is identified, it means we identify what is the total cost of job and how much profit we get , we need to identify if we are making 500 shirts and selling to A so how much will be our cost and profit in it. To identify cost and profit we prepare cost sheet.

CLIENT C

700 SHIRTS (JOB C)

SHIRT MANUFACTURING COMPANY

CLIENT B

1000 SHIRTS (JOB B)

CLIENT A

500 SHIRTS (JOB A)

Separate cost sheets are prepared for each job to identify each job profitability. If we make combine cost sheet we might have profit but if we make separate we know we have loss in for example JOB A. we had net profit but loss in JOB A. cost sheet is divided into 3 parts. First part has company name, client name, product, quantity of product ordered, date ordered, product specification, date started and date completed. Second part has materials, direct labor and applied factory over head. Third part has total factory cost, selling price, cost to make and sell, profit.

**Job order costing system** is generally used by companies that manufacture a number of different products. It is a widely used costing system in manufacturing as well as service industries. Manufacturing companies using job order costing system usually receive orders for customized products and services. These customized orders are known as jobs or batches. A clothing factory, for example, may receive an order for men shirts with particular size, color, and design. When companies accept orders or jobs for different products, the assignment of cost to products becomes a difficult task. In these circumstances, the cost record for each individual job is kept because each job have a different product and, therefore, different cost associated with it. The per unit cost of a particular job is computed by dividing the total cost allocated to that job by the number of units in the job. The per unit cost formula is given below: Per unit cost = Total cost applicable to job / Number of units in the job. Examples of manufacturing businesses that use job order costing system include clothing factories, food companies, air craft manufacturing companies etc. Examples of service businesses that use job order costing system include movie producers, accounting firms, law firms, hospitals etc.

 Job order costing that takes place when customers order small, unique batches of products. This system determines the price of each individual product and ensures that the cost for each product is reasonable enough for a customer to purchase it while still allowing the company to make a profit. Job order costing is used to measure the revenue gained against the expenses incurred during the production process so that we can determine the profit for every unique job which is being manufactured.

**QUESTION 3: Briefly define LIFO and FIFO? Explain with examples.**

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

FIFO stands for “First-In, First-Out”. It is a method used for cost flow assumption purposes in the cost of goods sold calculation. The FIFO method assumes that the oldest products in a company’s inventory have been sold first. The costs paid for those oldest products are the ones used in the calculation.

The method is easy to understand, universally accepted and trusted. FIFO follows the natural flow of inventory (oldest products are sold first, with accounting going by those costs first). This makes bookkeeping easier with less chance of mistakes. Less waste (a company truly following the FIFO method will always be moving out the oldest inventory first). Remaining products in inventory will be a better reflection of market value (this is because products not sold have been built more recently). Higher profit.

But at same time FIFO method can result in higher income tax for a business to pay, because the gap between costs and profit is wider (than with LIFO).A company also needs to be careful with the FIFO method in that it is not overstating profit. This can happen when product costs rise and those later numbers are used in the cost of goods calculation, instead of the actual costs.

**FIFO EXAMPLE**

KHAADI is a cloth shop located in Peshawar. Khaadi opened the store in September of last year. Right now, it is just the one location but they may expand in the next couple of years depending on whether he can make good money or not.

January has come along and khaadi needs to calculate their cost of goods sold for the previous year, which they will do using the FIFO method.

Here is what his inventory costs are:

Month Amount Price Paid

September 200 shirts 2000 per

October 275 shirts 2100 per

November 300 shirts 2250 per

December 500 shirts 2750 per

Khaadi sold 600 shirts during this time, out of his stock of 1275.

Going by the FIFO method, khaadi needs to go by the older costs (of acquiring his inventory) first.

khaadis COGS calculation is as follows:

200 x 2000 = 400,000

275 x 2100 = 577,500

125 x 2250 =281,250

COGS Total: 1,258,750

khaadis cost of goods sold is 1,258,750 RS

The remaining unsold 275 shirts will be accounted for in “inventory”.

khaadi can use the cost of goods sold to help determine their profit.

**LIFO METHOD**

LIFO stands for “Last-In, First-Out”. It is a method used for cost flow assumption purposes in the cost of goods sold calculation. The LIFO method assumes that the most recent products added to a company’s inventory have been sold first. The costs paid for those recent products are the ones used in the calculation.

The LIFO method is used in the COGS (Cost of Goods Sold) calculation when the costs of producing a product or acquiring inventory have been increasing. This may be due to inflation .Although the LIFO accounting method may mean a decrease in profits for a business, it can also mean less corporate tax a company has to pay. Should the cost increases last for some time, then these savings could be significant for a business.

**EXAMPLE**

Mar 1 Beginning Inventory 60 units @ $15.00

5 Purchase 140 units @ 15.50

14 Sale 190 units @ 19.00

27 Purchase 70 units @ 16.00

29 Sale 30 units @ 19.50

Solution

LIFO Periodic

Units Available for Sale = 60 + 140 + 70 = 270

Units Sold = 190 + 30 = 220

Units in Ending Inventory = 270 − 220 = 50

Cost of Goods Sold Units Unit Cost Total

Sales From Mar 27 Inventory 70 16.00 1,120

Sales From Mar 5 Purchase 140 15.50 2,170

Sales From Mar 1 Purchase 10 15.00 150

 220 3440

Ending Inventory Units Unit Cost Total

Inventory From Mar 27 Purchase 50 15.00 750