



Program: MBA (3.5)

ID#15610

Subject: Cost Accounting

Submitted to: Sir Quaid Iqbal

Submitted by: Saeeda zakir

Q 1:

Answer No: 01

Required 01

Production Data	Departments		
	Blending	Testing	Terminal
Unit started	8000 kg		
Unit Received		5400	3200
Unit transfer to next Department	5400 kg	3200	2000
Unit Still in process		1700	900
Unit loss (Normal)		500	300
	<u>8000 kg</u>	<u>5400 kg</u>	<u>3200kg</u>

Required 02

	Equivalent production					
	Blending Department		Testing Department		Terminal Department	
Unit transfer out	5400	5400	3200	3200	2000	2000
Unit still in process	100% 2400	2/3 1600	100% 1700	2/3 1133	100% 900	1/3 300
Equivalent production	<u>7800</u>	<u>7000</u>	<u>4900</u>	<u>4333</u>	<u>2900</u>	<u>2300</u>

Required 03

The unit cost of FOH in the terminal department

$$= \frac{\text{FOH cost} - \text{Terminal department}}{\text{Production (Conv Cost) Terminal department}}$$

$$= \frac{5000}{2300}$$

$$= \mathbf{2.179 \text{ Answer}}$$

Required 04

The lost unit cost in the testing department. If the unit of cost transferred in from the blending department is 5.10

Cost received from blending department

$$5400 * 5.10 = 27540$$

New per unit cost in testing department

$$\begin{aligned}
 & \frac{\text{Cost received from}}{\text{unit received} - \text{loss unit}} \\
 & = \frac{27540}{5400-500} \\
 & = \frac{27540}{4900} \\
 & = 5.62
 \end{aligned}$$

Ans : Loss units cost = $5.62 - 5.10 = 0.52$

Q2: what is job order costing ? Explain with example. (10 Marks)

ANSWER : Job costing is a product costing method adopted by an enterprise that provide limited quantities of unique products. This kind of enterprise products tailor made goods or services that conform to the specifications designed by customer. Costs can be determined separately for each job order. Business that use job order cost system includes construction companies, jewellery, art work, prints shops etc.

Example: Below are examples of different types of companies using job order costing systems to track inventory and how the process differs.

- Retail companies
- Medical services
- Construction companies

Retail companies: With job order costing, products are made individually or in a smaller group, rather than in a large bulk of items. For example:

Say a customer bought shoes personalized with their name written on the sides and shoelaces made of cotton, rather a basic nylon material. Since this order is unique, a business would use job order costing to create a unique price to charge the customer for their custom-made shoe.

Medical services: Hospitals and clinics use job order costing to determine how much to charge each patient. If a patient arrives at the clinic needing a checkup, they obviously require less care than someone who needs complex surgery that requires a multiple night stay. Since each patient's experience can vary according to their needs, the hospital or clinic's accounting team creates a separate job order cost for each service to make sure the hospital is making enough money to support their resource.

Construction companies:

Many construction workers design buildings that are custom made and catered toward the needs of a specific property owner or manager. They often estimate the cost of each product needed to construct the building or property piece. Once estimated on a job cost sheet, they will present this estimate to the property manager or owner. If it's approved, the construction company will use the job order sheet to track their progress and amount spent, making sure to stay within the agreed-upon budget.

Q3: What difference between LIFO and FIFO ? Explain with examples. **(10 Marks)**

ANSWER :

FIFO	LIFO
<p>Fifo method assumes that the first one purchased was the first one to sold. The earliest goods purchased are first to be recognised as cost of goods sold. Ending inventory is calculated on the latest unit produced. The latest prices used for the fifo methods gives highest valuation gross profit. The fifi method removes the oldest items from inventory first.</p> <p>Example : like a person bought 10 items in January at \$, more in April at \$2 and 10 more in july at \$3, then sold 15 total during the year, the cost of goods sold would be \$20. The first 10 items that bought cost \$1 each and the next five cost \$2 each. The remaining inventory would be valued at $5 \times \\$2 + 10 \times \\$3 = \\$40$</p>	<ul style="list-style-type: none">• It is a method of stock inventory. Last in first out is a method used to amount for inventory that records the most recently produced item as sold first. To calculate lifo determine the cost of most recent inventory and multiply it by the inventory sold. <p>Example: lifo is opposite of fifo. The newest items come out of inventory first. In the fifo example the cost of goods sold is now \$40 the last 10 items is bought cost \$3 each and the five before that cost \$2 each. The remaining inventory would be based on the first 15 items bought value of $10 \times \\$1 + 5 \times \\$2 = \\$20$</p>
