**Final Exam**

**Name:** Salman Tahir

**ID:** 15173

**Program:** BBA

**Course:** Cost accounting

**Instructor:** Quaid Iqbal

**Q1:** Quantity and equivalent production schedules, Adjustment for lost units. Lot came laboratories produce, an antibiotic product in its three producing departments. The following quantitative and cost data have been made available

Required:

1) A quantity schedule for each of the three departments.

2) An equivalent production schedule for each of the three departments

3) The unit cost of FOH in the terminal department

4) The lost unit cost in the testing department, if the unit cost transferred in from the blending department is $5.00

**Answer**

**1) A quantity schedule for each of the three departments.**

**Departments**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Blending** | **Testing** | **Terminal** |
| Units started In process | 8000kg |  |  |
| Units received from proceeding department |  | 5300kg | 3250kg |
| Units transferred to next department | 5300 | 3250 |  |
| Units transferred to finished goods storeroom |  |  | 1900 |
| Units still in process | 2400 | 1700 | 900 |
| Units lost in process | 300 | 350 | 450 |
|  | 8000 | 5300 | 3250 |

2. **An equivalent production schedule for each of the three departments**

**Equivalents product schedule**

|  |  |  |
| --- | --- | --- |
| **blending** | **Testing department** | **Terminal department** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Materials | Labor and factory overhead | Prior dept. and materials | Labor and factory overhead | Prior dept. and materials | Labor and factory overhead |
| Transferred out | 5300 | 5300 | 3250 | 3250 | 1900 | 1900 |
| Units still in process | 2400 | 1600 | 1700 | 1275 | 900 | 900 |
|  | 7700 | 6900 | 4950 | 4525 | 2800 | 2500 |

**3) The unit cost of FOH in the terminal department**

Factory overhead $5000

Factory overhead units 2500

=$2

**4) The lost unit cost in the testing department, if the unit cost transferred in from the blending department is $5.00**

5.00 X $5300 = $26500 cost transferred in from blending department

$26500 = 5.353 new cost

5300-350

$5.353 new unit cost

$5.00 old unit cost

$0.353 lost unit cost

Q2: what is job order costing? Explain with example.

**Job order costing**

Job order costing is a costing method which is used to determine the cost of manufacturing each product. This costing method is usually adopted when the manufacturer produces a variety of products which are different from one another and needs to calculate the cost for doing an individual job

Job costing means the process of identifying the total cost incurred for completion of job according to the specifications and instructions of customers

The **job order cost system** is used when products are made based on specific customer orders. Each product produced is considered a job. Costs are tracked by job. Services rendered can also be considered a job. For example, service companies consider the creation of a financial plan by a certified financial planner, or of an estate plan by an attorney, unique jobs. The job order cost system must capture and track by job the costs of producing each job, which includes materials, labor, and overhead in a manufacturing environment

Job costing includes the direct labor, direct materials, and manufacturing overhead for that particular job.

Job order costing is extensively used by companies all over the world. According to a survey, 51.1% of manufacturing companies in United States use job order costing.

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.

A few examples of the use of job order costing are:

• A company that designs and produces custom-made machines and/or machine tooling

• A company that constructs custom-designed buildings

• A company that modifies trucks to meet customers' special needs

Q3: Briefly define LIFO and FIFO? Explain with examples

# **(Last In, First Out)**

# **Definition of LIFO (Last In, First Out)**

An accounting method for inventory and cost of sales in which the last items produced or purchased are assumed to be sold first; allows business owner to value inventory at the less expensive cost of the older inventory; typically used during times of high inflation

LIFO is the acronym forlast-in, first-out, which is a [cost flow assumption](https://www.accountingcoach.com/blog/what-are-cost-flow-assumptions) often used by U.S. corporations in moving costs from [inventory](https://www.accountingcoach.com/blog/what-is-inventory) to the [cost of goods sold](https://www.accountingcoach.com/blog/cost-of-goods-sold-2).

 LIFO is a cost flow assumption and the flow of costs can be different from the flow of the physical units. In other words, under LIFO a corporation can ship its oldest physical units of product first, but can remove from inventory the cost of the most recently purchased items.

The LIFO method is used in the COGS (Cost of Goods Sold) calculation when the costs of producing a product or acquiring inventory has 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 of LIFO**

Assume that a corporation uses LIFO and has three units of a product in its inventory. Due to its supplier raising its prices, the corporation purchased the items at different costs and in the following sequence: $40, $44, and $46. The corporation ships the oldest item (the one purchased for $40) to a customer at a selling price of $60. However, under the LIFO cost flow assumption the company reports its cost of goods sold at $46 (the latest cost) and reports a gross profit of $14. (The costs of $40 and $44 remain in inventory.)

## **Definition of FIFO**

In accounting, FIFO is the acronym for First-In, First-Out. It is a [cost flow assumption](https://www.accountingcoach.com/blog/what-are-cost-flow-assumptions) usually associated with the valuation of [inventory](https://www.accountingcoach.com/blog/what-is-inventory) and the [cost of goods sold](https://www.accountingcoach.com/blog/cost-of-goods-sold-2). Under FIFO, the oldest costs will be the first costs to be removed from the balance sheet account Inventory and will be the first costs to be included in the cost of goods sold on the income statement. Therefore, under the FIFO cost flow assumption the most recent costs will remain in Inventory to be reported on the company's balance sheet.

## **Example of FIFO**

Let's assume that a company sold only one product and had 10 units on hand at the beginning of the accounting year with a cost of $19 each. During the year the company purchased an additional 145 units in this order: 40 units at $20, 50 units at $21, and 55 units at $22. Let's also assume that the company uses the [periodic inventory system](https://www.accountingcoach.com/blog/what-is-the-periodic-inventory-system), the FIFO cost flow assumption and that 130 units were sold. Therefore, there will be 25 units remaining in inventory. With the FIFO cost flow assumption, the first costs to come out of inventory and become the cost of goods sold are: 10@$19 + 40@$20 + 50@$21 + 30@$22. The costs that remain in inventory will be 25@$22.