***IQRA NATIONAL UNIVERSITY, PESHAWAR***

***DEPARTMENT OF BUSINESS ADMINISTRATION***

**Students ID # 15469 Dated: 23.06.2020**

**Subject: Cost Accounting**

**Answer No: 01**

**Required 01**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Departments** | | | | |
| **Blending** | **Testing** | | **Terminal** | |
| **Production Data** |  | | | | |
| 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 |

**8000 kg 5400 kg 3200kg**

**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 | 2/31600 | 100%1700 | 2/31133 | 100%900 | 1/3300 |
| Equivalent production | 7800 | 7000 | 4900 | 4333 | 2900 | 2300 |
|  |  |  |  |  |  |  |

**Required 03**

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

= FOH cost – Terminal department

Production ( Conv Cost ) Terminal department

= 5000

2300

**= 2.179 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

Cost received from

unit received – loss unit

= 27540

5400-500

= 27540

4900

= 5.62

Ans : Loss units cost = 5.62 – 5.10 = **0.52**

Answer No. 2

**Definition of Job Order Costing:**

Job order costing or job costing is a system for assigning and accumulating [manufacturing costs](https://www.accountingcoach.com/blog/what-are-manufacturing-costs) of an individual unit of output. The job order costing system is used when the various items produced are sufficiently different from each other and each has a significant cost. (When a company's output consists of continuous flows of identical, low-cost units, the [process costing](https://www.accountingcoach.com/blog/what-is-process-costing) system is more appropriate.)

Since there is a significant variation in the items manufactured, the job order costing system requires a separate job cost record for each item (or each job or special order). The job cost record will report each item's direct materials and [direct labor](https://www.accountingcoach.com/blog/what-is-direct-labor) that were actually used and an assigned amount of [manufacturing overhead](https://www.accountingcoach.com/blog/what-is-manufacturing-overhead-and-what-is-included).

The job cost records also serve as the [subsidiary ledger](https://www.accountingcoach.com/blog/subsidiary-ledgers-control-account) or documentation for the manufacturer's cost of the work-in-process inventory, the finished goods inventory, and the [cost of goods sold](https://www.accountingcoach.com/blog/cost-of-goods-sold-2).

**Examples of Job Order Costing**

* 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

Answer No.3

### Definition of LIFO

Last in, first out or LIFO, is a method of accounting for valuing inventory. This method is based on the assumption that the last item placed in the inventory will be sold out first, i.e. reverse chronological order will be followed in issuing inventory from the stores.

At the time of inflation in the economy, the value of the unsold stock will be low, while the value of the cost of goods sold will be high, which will ultimately result in low profit and income tax as well. Whereas in deflationary conditions, the whole scenario will get reversed due to fall in the general price level, resulting in higher profits and income tax.

Although, the assumption is proved illogical and contradictory to the movement of inventory in the business organization. By virtue of this, LIFO method is no longer adopted for valuing inventory.

### Definition of FIFO

An asset management technique, in which the actual issue or sale of goods from the stores is made from the oldest lot on hand is known as First in, first out or FIFO. It follows a chronological order, i.e. it first disposes of the item that is placed in the inventory first. That is why this method of inventory valuation is regarded as the most appropriate and logical one. Hence used by most of the business persons in maintaining their inventory.

If the goods are perishable in nature, then they will get obsolete soon, so it would be beneficial that the earliest stock should be handled first which minimizes the risk of obsolescence. Therefore, the leftover stock in hand will ultimately show the most recent stock that is at the present market price.

The method is considered as most suitable one when there is a fall in the prices because the cost that is charged to production will be higher than the replacement cost. However, if the prices are high the same condition will get reversed and as a result, it is not easy to order the same quantity of materials without having sufficient fund

Key Differences between LIFO and FIFO

The points given below explain the fundamental differences between LIFO and FIFO methods of inventory valuation:

1. A method of stock valuation in which last received lot in hand is issued first is known as LIFO. FIFO is a short form for First in, first out in which the inventory produced or purchased first, is disposed off or sold out first.
2. In LIFO, the stock in hand represents, oldest stock while in FIFO, the stock in hand is the latest lot of goods.
3. In LIFO, the cost of goods sold (COGS) shows current market price while in the case of FIFO the cost of unsold stock shows current market price.
4. First in First out is given a much higher preference. Last in First out is given a much lower preference on the balance sheet..

**First In First Out (FIFO)**

This method assumes that inventory purchased first is sold first. Therefore, inventory cost under FIFO method will be the cost of latest purchases. Consider the following example:

**Example**

Bike LTD purchased 10 bikes during January and sold 6 bikes, details of which are as follows:

January 1 Purchased 5 bikes @ $50 each

January 5 Sold 2 bikes

January 10 Sold 1 bike

January 15 Purchased 5 bikes @ 70 each

January 25 Sold 3 bikes

The value of 4 bikes held as inventory at the end of January may be calculated as follows:

The sales made on January 5 and 10 were clearly made from purchases on 1st January. Of the sales made on January 25, it will be assumed that 2 bikes relate to purchases on January 1 whereas the remaining one bike has been issued from the purchases on 15th January. Therefore, the value of inventory under FIFO is as follows:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Purchase** | | | **Issues** | | | **Inventory** | | |
|  | **Units** | **$/Units** | **$ Total** | **Units** | **$/Units** | **$ Total** | **Units** | **$/Units** | **$ Total** |
| **Jan 1** | **5** | **50** | **250** |  |  |  | **5** | **50** | **250** |
| **Jan 5** |  |  |  | **2** | **50** | **100** | **3** | **50** | **150** |
| **Jan 10** |  |  |  | **1** | **50** | **50** | **2** | **50** | **100** |
| **Jan 15** | **5** | **70** | **350** |  |  |  | **5** | **70** | **350** |
| **Jan 15** |  |  |  |  |  |  | **7** |  | **450** |
| **Jan 25** |  |  |  | **2** | **50** | **100** |  |  |  |
|  |  |  |  | **1** | **70** | **70** | **4** | **70** | **280** |

As can be seen from above, the inventory cost under FIFO method relates to the cost of the latest purchases, i.e. $70.

**Last in First out (LIFO)**

This method assumes that inventory purchased last is sold first. Therefore, inventory cost under LIFO method will be the cost of earliest purchases. Consider the following example:

**Example**

Bike LTD purchased 10 bikes during January and sold 6 bikes, details of which are as follows:

January 1 Purchased 5 bikes @ $50 each

January 5 Sold 2 bikes

January 10 Sold 1 bike

January 15 Purchased 5 bikes @ 70 each

January 25 Sold 3 bikes

The value of 4 bikes held as inventory at the end of January may be calculated as follows:

The sales made on January 5 and 10 were clearly made from purchases on 1st January. However, all sales made on January 25 will be assumed to have been made from the purchases on January 15. Therefore, the value of inventory under LIFO is as follows:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Purchase** | | | **Issues** | | | **Inventory** | | |
|  | **Units** | **$/Units** | **$ Total** | **Units** | **$/Units** | **$ Total** | **Units** | **$/Units** | **$ Total** |
| **Jan 1** | **5** | **50** | **250** |  |  |  | **5** | **50** | **250** |
| **Jan 5** |  |  |  | **2** | **50** | **100** | **3** | **50** | **150** |
| **Jan 10** |  |  |  | **1** | **50** | **50** | **2** | **50** | **100** |
| **Jan 15** | **5** | **70** | **350** |  |  |  | **5** | **70** | **350** |
| **Jan 15** |  |  |  |  |  |  | **7** |  | **450** |
| **Jan 25** |  |  |  | **3** | **70** | **210** | **2** | **50** | **100** |
|  |  |  |  |  |  |  | **2** | **70** | **140** |
|  |  |  |  |  |  |  | **4** |  | **240** |

As can be seen from above, LIFO method allocates cost on the basis of earliest purchases first and only after inventory from earlier purchases are issued completely is cost from subsequent purchases allocated. Therefore value of inventory using LIFO will be based on outdated prices. This is the reason the use of LIFO method is not allowed for under IAS 2.

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