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**Subject: Cost Accounting**

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**Question # 1.**

**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.**

**DEPARTMENTS**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **BLENDING** | **TESTING** | **TERMINAL** |
| Units started in process | 8000kg |  |  |
| Units received from preceding 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 |

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

**EQUIVALENT PRODUCTION SCHEDULE**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **BLENDING**  **DEPARTMENT** | | **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 | | 600 |
|  | 7700 | 6900 | 4950 | 4525 | 2800 | | 2500 |

1. **The unit cost of FOH in the terminal department:**

Factory overhead\_\_\_\_\_\_ = $5000

Factory overhead units 2500

= $2

1. **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.

**Question # 2**

**What is job order costing? Explain with example.**

**Answer:**

**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

**Example:**

I have a company that builds tree houses

A customer orders two tree houses

To build the tree houses you use:

* $10000 of direct labor
* 400 hours of direct labor (10/hour)
* Manufacturing overhead applied on the basis of direct labor hours of a rate of $15 per direct labor.

Cost of job:

Direct material $10000

Direct labor $4000

MOH $6000

Total cost $20000

Units produced 2

Cost per unit $10000 this is the total cost per unit.

**Question # 3**

**Briefly explain LIFO and FIFO with examples**

**Answer: FIFO and LIFO are cost layering methods used to value the cost of goods sold and ending inventory. FIFO is a contraction of the term "first in, first out," and means that the goods first added to inventory are assumed to be the first goods removed from inventory for sale. LIFO is a contraction of the term "last in, first out," and means that the goods last added to inventory are assumed to be the first goods removed from inventory for sale**

1. **First in, first out (FIFO):**

First In, First Out, commonly known as FIFO, is an asset-management and valuation method in which assets produced or acquired first are sold, used, or disposed of first. For tax purposes, FIFO assumes that assets with the oldest costs are included in the income statement's cost of goods sold (COGS). The remaining inventory assets are matched to the assets that are most recently purchased or produced.

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1. **Last in, first out (LIFO):**

The FIFO method is used for cost flow assumption purposes. In manufacturing, as items progress to later [development stages](https://www.investopedia.com/terms/d/developmentstage.asp) and as finished inventory items are sold, the associated costs with that product must be recognized as an expense. Under FIFO, it is assumed that the cost of inventory purchased first will be recognized first. The dollar value of total inventory decreases in this process because inventory has been removed from the company’s ownership.

## FIFO and LIFO Examples:

We are going to use one company as an example to demonstrate calculating the cost of goods sold with both FIFO and LIFO methods.

ABC’s Televisions is a business in New York City. They have been in operation now for a year. This is what his inventory costs look like:

**Month           Amount             Price Paid**

January           100 Units             $800.00  
February         100 Units             $800.00  
March             100 Units             $825.00  
April                100 Units             $825.00  
May                 100 Units             $825.00  
June                100 Units             $850.00  
July                 100 Units             $850.00  
August            150 Units             $875.00  
September     150 Units             $875.00  
October          150 Units             $900.00  
November      150 Units             $900.00  
December      150 Units             $900.00

1450 units acquired.  
Units = Televisions.

As you can see, the unit price of televisions steadily increased. Assuming ABC kept their sales prices the same (which they did, in order to stay competitive), this means there was less profit for ABC’s Televisions by the end of the year.

For the year, the number of televisions sold was 1100.

Let’s calculate cost of goods sold using the:

**Example of LIFO:**

ABC Company needs to go by their most recent inventory costs first and work backwards from there.

450 units x 900 = $405,000  
300 units x 875 = $262,500  
200 units x 850 = $170,000  
150 units x $825 = $125,750

ABD’s cost of goods sold is $961,250

**Example of FIFO:**

Going by the FIFO method, ABC needs to use the older costs of acquiring his inventory and work ahead from there.

So ABD’s Cost Of Goods Sold calculation is as follows:

200 units x $800 = $160,000  
300 units x $825 = $247,500  
200 units x $850 = $170,000  
300 units x $875 = $262,500  
100 units x $900 = $90,000

ABC’s cost of goods sold is $930,000