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IQRA NATIONAL UNIVERSITY

Name:	**Sifatullah**
ID:	**#14678**
Subject:	**Cost Accounting**
Semester:	**4th**
Submitted to:	**Sir Quaid Iqbal**
Exam:	**Midterm**

IQRA NATIONAL UNIVERSITY

Module Leader: Quaid Iqbal   Module: Cost Accounting

Spring Semester 2020   **Online Assignment (30 Marks)**

Instructions: These questions should be solved and submitted in MS World format

Best of Luck

Q1: What is inventory? (3 marks)

Ans.1: Inventories are materials or finished goods or Semi-finished goods that is used for sale to customer or provide input to production process. Inventory also known as stock refers to the physical goods and materials that a business owns with a view of future resale.

Inventory can be divided into:

- **Raw materials:** materials or components used in making a product
- **Work-in-progress**: materials and components that are being used to make a product
- **Finished goods:** goods ready for sale
- **Goods for resale**: returned goods that can be resold

Q2: What is difference between Planning and Control? (3 marks)

Ans.2: Once a plan becomes operational, control is necessary to monitor the progress, measure it, discover deviations and initiate corrective measure to ensure that events conform to plans.

Planning and Control are two quite different concepts such as:

- **Planning** involves developing objects and preparing various budgets to achieve those budgets while **Control** involves the steps taken by management to increase the likelihood that the objectives set down at the planning stage are attained and that all parts of the organization are working together toward that goal.
- **Planning** seeks consistent, integrated and articulated programmer while **control** seeks to compel events to conform to plans.
- **Planning** based on facts makes controlling easier and effective while **control** improves future planning by providing information derived from past experience.

To be completely effective, a good budgeting system must provide for both planning and control. Good planning without control is time wasting.

Q3: what is difference between estimated factory overhead and applied factory overhead? (4 marks)

Ans.3: **Factory Overhead:** factory overhead is the cost of the goods during the manufacturing process. Factory overhead does not involve the cost of direct labour and direct material.

Example: gas, electricity, water bills, rent insurance, servicing, maintenance costs etc., are the examples of factory overhead.

- **Estimated Factory overhead** is budgeted at the beginning of the year while **Applied factor overhead** is done during the year**.**
- **Estimated factory overhead** is used to calculate the predetermined overhead rate on the other hand **Applied Factory overhead** as work is completed using the predetermined overhead rate and actual activity.

Q4: The accounting department of the Ruthven Company provided the following data for May:

Sales: $72,000

Marketing Expenses: 5%

Administrative expenses: 1%

Other Expenses: 5%

All of sales.

Purchases $36,000

Factory Overhead: 2/3 of the direct labour

Direct labour: $15,000

Beginning Inventories		Ending Inventories	
Finished goods	$7,000	Finished goods	$10,200
Work In Process	$8,000	Work In Process	$15,000
Materials	$8,000	Materials	$8,000

Required:

i. Cost of goods sold statement
ii. Income statement

Important:

Write a complete note, how you have solved this problem. Furthermore, elaborate every heading which is used in cost of goods sold statement.

Ans. 4: Cost of goods sold statement.

The Ruthven Company

Cost of Goods Sold Statement
For the month ended May

1. Direct Material:			
Beginning Material		$ 8,000	
Purchase Material		$ 36,000	
Inventory for Use		$ 44,000	
Ending Material		$ (8,000)	
Inventory Used			**$ 36,000**
2. Direct Labour:			**$ 15,000**
3. Factory Overhead:	(2/3 * 15,000)		
			$ 10,000
Total Manufacturing Cost			**$ 61,000**
4. Work in Progress:			
Beginning			**$ 8,000**
Ending			**$ (1,500)**
Cost of Manufacturing Goods			**$ 54,000**
5. Add Finished Goods Inventories:			**$ 7,000**
Less Finished Goods Inventories			**$ (10,200)**
Cost of Good Sold			**$ 50,800**

Explanation: Five steps are taken on above Cost of Good Sold Statement which are:

- **Step. 1: Direct Material** in this statement we add Beginning Material with the Purchase Material which give the total Inventory for Use and then deducted Ending Material from Inventory for Use which gives the Used Inventories.
- **Step. 2: Direct labour:** Adding direct Labour who worked for the production.
- **Step. 3:** The cost of Direct Labour, Inventory Used and Factory Overhead is added which give the value of Total Manufacturing Cost.
- **Step. 4: work in Progress** the value of goods which are ready for sale but are not yet sold, is deducted from the value of unsold goods of previous year and give the value of Cost of Manufacturing Goods.

- **Step. 5: Add Finished Goods Inventories** the last step of problem the Cost of Manufactured Goods and the Cost of Beginning finished goods are added and then Cost of Ending finished goods is deducted from Cost of Manufacturing Goods which give the Cost of Goods Sold.

The Ruthven Company
Income Statement
For the month ended

Sales:			**$ 72,000**
Less:	**Cost of Good sold**		**$ 50,800**
	Gross Profit		**$ 21,200**
Less:			
	Administration Expense	$ (720)	
	Marketing Expense	$ (3,600)	
	Other Expense	$ (3,600)	**$ (7,920)**
	Net Profit		**$ 13,280**

Explanation: In above Income statement the first step which we taken is deducted the cost of Good sold from total sales of the month which give us gross profit and the next step is all the expense (Administration expense, marketing expense and other expense) deducted from the gross profit which give us at the end net profit which clearly define that the Company is going in profit.