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Department: BBA 4th Semester

Subject: cost accounting

Answer Q1

Inventory accounting is the body of accounting that deals with valuing and accounting for changes in inventoried assets. A company's inventory typically involves goods in three stages of production: raw goods, in-progress goods, and finished goods that are ready for sale.

Answer Q2

**2. Difference between Planning and Controlling**

It is correct that planning and controlling are incomplete and ineffective without each other and hence, dependent on each other. But it does not mean that both are not independent. The following points are helpful to clarify their independent character:

Plans are always formulated for future and determine the future course of action for the achievement of objectives laid down.

On the contrary, controlling is looking back because under it a manager tries to find out, after the work is completed, whether it has been done according to the standards or not. It is thus clear that planning looks ahead and controlling looks backward or in the past.

This difference between planning and control can be stated in the reverse position also. It means Planning is looking back whereas controlling is looking ahead. Planning is called looking back because the plans are formulated on the basis of the happenings of the past or on the basis of experience.

On the other hand, controlling evaluates the work done in the past but under it corrective action is taken in respect of future. Hence, there should not be any hesitation in saying that planning looks backward while controlling looks ahead,

Answer Q3

First, we calculated the predetermined overhead rate by dividing estimated overhead by estimated activity.

Then we multiplied the predetermined overhead rate by the actual activity to calculate applied overhead.

So far, we haven’t used a single actual overhead figure in our calculations. Actual overhead is the amount that the company actually incurred. Imagine that there are two groups of accountants inside a company. One group is applying overhead based on the actual activity and the predetermined overhead rate. These accountants are adding direct materials, direct labor and applied overhead to jobs to calculate the cost of goods sold on every job that is sold. The second group of accountants is recording actual bills and totaling up actual overhead costs. Except these actual overhead costs are not included in cost of goods sold. They are held off to the side. At the end of the year, the applied accountants and the actual accountants come together to reconcile cost of goods sold to ensure that the actual numbers are what ends up in cost of goods sold at the end of the year

Answer Q4

Ruthven Company

Cost of goods sold statement

Month, ended, may

: Material

Beginning Material *$*8000

Purchase *$*36000

* Material available for use *$*44000

Ending material consumed (*$*8000)

Total material consumed *$*36000

: Direct labor *$*5000

3: Factory overhead, $^{2}/\_{3}of direct labor$ *$*10000

Total manufacturing cost *$*61000

: Work in process

 Beginning work in process *$*8000

 Ending work in process (*$*15000)

Cost of goods manufactured *$*54000

: Finished goods

 Beginning finished goods *$*7000

 Ending finished goods (*$*10200)

Cost of goods sold ***$*50800**

Income statement

Month ended, May

Sales *$* 72000

C.G.S (*$* 50800)

* Gross profit *$* 21200

Marketing expense (*$* 3600)

Administrative expense (*$* 720)

Other expense (*$* 3600)

Net income *$* 13280

Marketing expense =5% of sales

 $^{5}/\_{100}×72000$

 = *$*3600

Administrative expense 1% of Sales

 $^{1}/\_{100}×72000$

 = *$* 720