

# CHAPTER 2: MANAGERIAL COST CONCEPTS

Notes by Brenda

mazri's tutorials

basis of managerial accounting: costs

**DM**: direct material

**DL**: direct labour

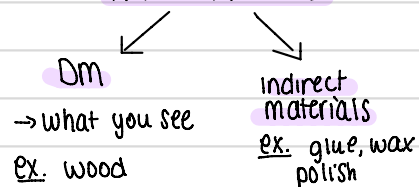
**MOH**: manufacturing overhead.

manufacturing costs  
OR  
product costs.

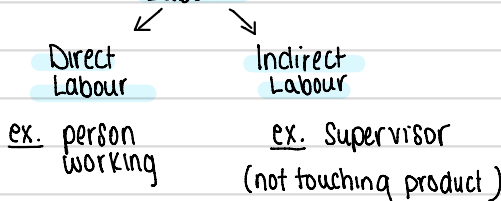
$$TC = \boxed{\text{DM} + \text{DL} + \text{MOH}}$$

PRIME                  CONVERSION

### Raw materials



### Labour



**MOH**: manufacturing overhead.

all indirect costs involving production

- Rent
- utilities
- property taxes
- insurance
- Indirect labour
- Indirect materials
- Depreciation

#### QUESTION 1: CLASSIFYING COSTS

↳ classify as DM, IM, DL, IL, MOH or IR\*

<b>DM</b>	Wood for desks	<b>DL</b>	Assembly line workers' salaries
<b>MOH</b>	Utilities Expense (factory)	<b>IR</b>	Utility Expense (Office)
<b>IM</b>	Glossing finish for desks	<b>DM</b>	Nuts and Bolts for desk
<b>MOH</b>	Depreciation (factory)	<b>IR</b>	Depreciation (head office)
<b>IL</b>	Supervisor salaries	<b>IM</b>	Glue for desks
<b>IR</b>	Sales rep salaries	<b>IR</b>	Accounts payable
		<b>IR</b>	Prepaid manufacturing expenses

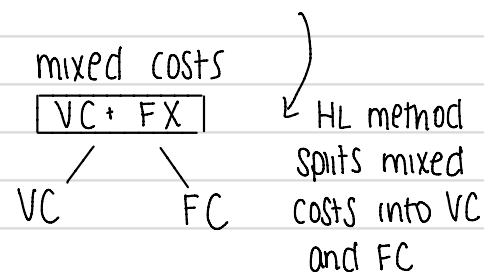
\* IR = irrelevant

#### QUESTION 2: HIGH-LOW METHOD

The new staff accountant, Joey, at Junior Junior Industries was tasked with accounting for variable and fixed costs for the past eight months. Unfortunately, Joey accounted for all the variable and fixed costs as one mixed cost amount. The head accountant, Gianni, reviewed his work and saw the following:

Month	Manufacturing Costs	Direct Labour Hours
January	\$1,180,000.00	10,000
February	\$874,000.00	5,500
March	\$1,316,000.00	12,000
April	\$2,132,000.00	24,000
May	\$1,860,000.00	20,000
June	\$1,724,000.00	18,000
July	\$806,000.00	4,500
August	\$772,000.00	4,000

### High-Low method



### Steps

- ① Identify highest and lowest levels of output
- ② Identify associated costs
- ③ find the slope (VC)
- ④ use VC to find FC

$$TC \rightarrow Y = ax + b$$

VC                  DL (output)                  FC

- Q2. ① 24,000 → 2,132,000
- ② 4,000 → 772,000

$$\textcircled{3} \frac{Y_2 - Y_1}{X_2 - X_1} = \frac{2,132,000 - 772,000}{24,000 - 4,000} = \$68 \quad \rightarrow \text{slope (VC)}$$

$$\textcircled{4} Y = ax + b$$

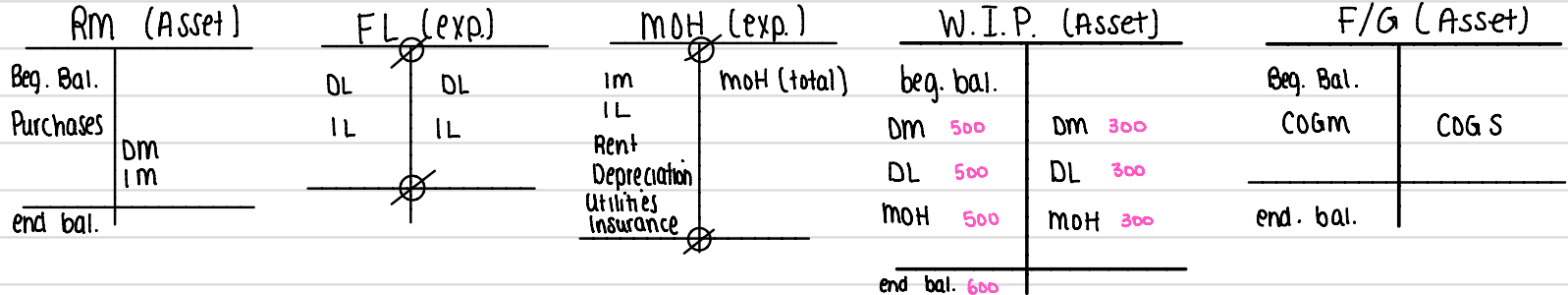
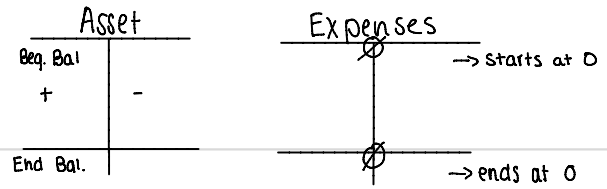
$$772,000 = 68(4000) + b \quad \leftarrow \text{FC}$$

$$FC = \$500,000$$

**variable cost**: change on a total basis but remain the same on a per unit basis.

**Fixed cost**: Remains the same on a total basis but changes on a per unit basis.

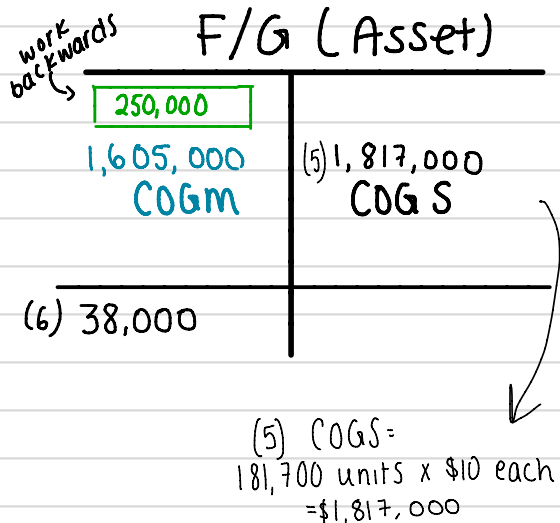
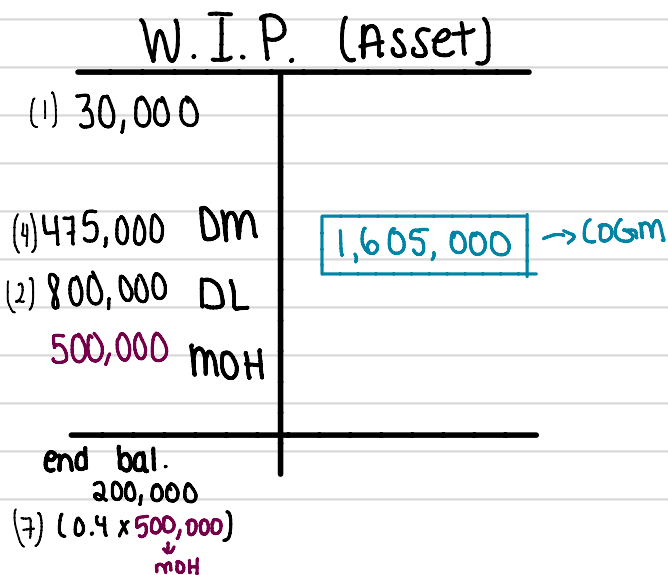
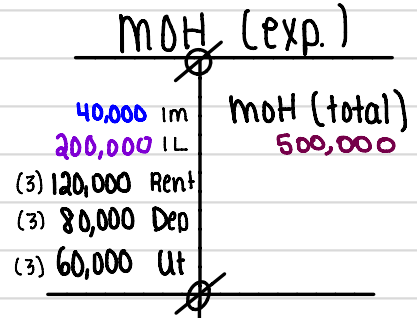
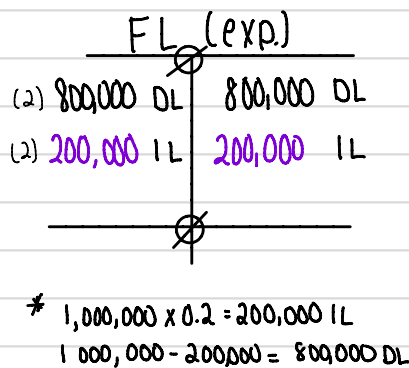
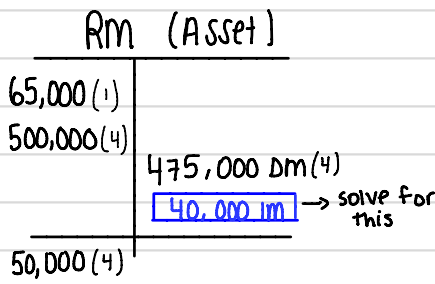
# Schedule of Cost of Goods Manufactured (T-accounts)



## QUESTION 3: COMPREHENSIVE QUESTION

Morissette's Farm Animals Inc. is a leading animal doll manufacturer. The company has seen great success in recent years thanks to its creative CEO, Claudia. However, Ryan's Chicken Inc., their main competitor, could not stand to see this success. After the 2014 December year-end, Claudia's company suffered from a surprise fire that nearly destroyed the main factory. Unfortunately, the fire also destroyed many of the accounting records. The managerial accountant, Pierre Junior, was tasked with recovering the lost data. Pierre began by compiling the following information:

- Raw materials and Work in process beginning balances were \$65,000 and \$30,000, respectively.
- Salaries paid amounted to \$1,000,000. 20% of this was for Indirect Labour.
- Overhead costs during the year were \$80,000 for depreciation, \$60,000 for utilities and \$120,000 for rent.
- Materials purchases were 500,000\$. Direct materials requisitions were \$475,000. Materials on hand at December 31<sup>st</sup> were \$50,000.
- 181,700 units were sold at a price of \$12/unit and cost \$10/unit.
- Finished goods inventory ending balance was \$38,000.
- Ending work in process was 40% of Overhead costs.



Req. 2 Prepare a Cost of Goods Manufactured Schedule

\* format with prev. numbers.

Company Name

Schedule of COGM

year end Dec 31 2014

\* 3 columns

Req. WIP		\$30,000
Direct materials:		
Req. RM	65,000	
Add: Purchases	<u>500,000</u>	
Materials Avail.	565,000	
Less: end RM	(50,000)	
Less: IM	<u>(40,000)</u>	
Direct materials		475,000
Direct Labour		800,000
Manufacturing Overhead		
IM	40,000	
IL	200,000	
Rent	120,000	
Dep.	80,000	
UT	<u>60,000</u>	
MOH		<u>500,000</u>
Total manufacturing Costs		1,775,000
Total cost of WIP		1,805,000
Less: end WIP		<u>(200,000)</u>
Cost of Goods manufactured		\$ 1,605,000

Req. 3 Income statement (OE = \$200,000)

Company Name

Income Statement

year end Dec 31 2014

\* 2 columns

Sales (181,700 x 12)	2,180,400
COGS	
Req. F/G	250,000
Add: COGM	<u>1,605,000</u>
Goods avail for sale	1,855,000
Less: end F/G	<u>(38,000)</u>
COGS	<u>1,817,000</u>
Gross Profit	363,400
Operating Expenses	<u>(200,000)</u>
Net Income	163,400

Req. 4 Asset Portion of Balance Sheet

Company Name  
Balance Sheet - Partial  
as at Dec 31 2014

\* 2 columns

Current Assets		
Cash		
A/R		250,000
Inventory:		80,000
F/G	38,000	
WIP	200,000	
RM	<u>50,000</u>	288,000
Prepaid Expenses		<u>8,000</u>
Total Current Assets		296,000

\* in order of liquidity

F/G }  
WIP } all in  
RM } inv account.