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 = DM + DL + MOH
DM + DL = PRIME
DL + MOH = CONVERSION

Raw materials
- DM → what you see. ex. wood
- Indirect materials ex. glue, wax polish

Labour
- Direct Labour ex. person working
- Indirect Labour ex. Supervisor (not touching product)

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*.

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

mixed costs
VC + FX
VC | FX

HL method splits mixed costs into VC and FC

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 → $y = ax + b$ → FC
VC ← a
DL (output)

Q2. ① ②

24,000 → 2,132,000
4,000 → 772,000

③ $\frac{y_2 - y_1}{x_2 - x_1} = \frac{2,132,000 - 772,000}{24,000 - 4000} = \$68$
↳ slope (VC)

④ $y = ax + b$
$772,000 = 68(4000) + b$ ← 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)

Asset	
Beg. Bal	
+	-
End Bal.	

Expenses	
Ø	→ starts at 0
Ø	→ ends at 0

RM (Asset)	
Beg. Bal.	
Purchases	DM
	IM
end bal.	

FL (exp.)	
Ø	
DL	DL
IL	IL
Ø	

MOH (exp.)	
Ø	
IM	MOH (total)
IL	
Rent	
Depreciation	
Utilities	
Insurance	
Ø	

W.I.P. (Asset)	
beg. bal.	
DM 500	DM 300
DL 500	DL 300
MOH 500	MOH 300
end bal. 600	

F/G (Asset)	
Beg. Bal.	
COGM	COGS
end. bal.	

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:

1. Raw materials and Work in process beginning balances were $65,000 and $30,000, respectively.
2. Salaries paid amounted to $1,000,000. 20% of this was for Indirect Labour
3. Overhead costs (→ MOH) during the year were $80,000 for depreciation, $60,000 for utilities and $120,000 for rent.
4. Materials purchases were 500,000$. Direct materials requisitions (→ requested) were $475,000. Materials on hand at December 31st were $50,000. → end. bal.
5. 181,700 units were sold at a price of $12/unit and cost $10/unit
6. Finished goods inventory ending balance was $38,000.
7. Ending work in process was 40% of Overhead costs. → MOH

RM (Asset)	
65,000 (1)	
500,000 (4)	
	475,000 DM (4)
	40,000 IM → solve for this
50,000 (4)	

FL (exp.)	
Ø	
(2) 800,000 DL	800,000 DL
(2) 200,000 IL	200,000 IL
Ø	

* 1,000,000 x 0.2 = 200,000 IL
1 000,000 - 200,000 = 800,000 DL

MOH (exp.)	
Ø	
40,000 IM	MOH (total) 500,000
200,000 IL	
(3) 120,000 Rent	
(3) 80,000 Dep	
(3) 60,000 Ut	
Ø	

W.I.P. (Asset)	
(1) 30,000	
(4) 475,000 DM	1,605,000 → COGM
(2) 800,000 DL	
500,000 MOH	
end bal. 200,000	

(7) (0.4 x 500,000) (500,000 ↓ MOH)

F/G (Asset)	
250,000 (work backwards)	
1,605,000 COGM	(5) 1,817,000 COGS
(6) 38,000	

(5) COGS = 181,700 units x $10 each = $1,817,000

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

Beg. WIP			$30,000
Direct materials:			
Beg. RM	65,000		
Add: Purchases	500,000		
Materials Avail.	565,000		
Less: end RM	(50,000)		
Less: IM	(40,000)		
Direct materials		475,000	
Direct Labour		800,000	
Manufacturing Overhead			
IM	40,000		
IL	200,000		
Rent	120,000		
Dep.	80,000		
UT	60,000		
MOH		500,000	
Total manufacturing Costs			1,775,000
Total cost of WIP			1,805,000
Less: end WIP			(200,000)
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 x12)		2,180,400
COGS		
Beg. F/G	250,000	
Add: COGM	1,605,000	
Goods avail for sale	1,855,000	
Less: end F/G	(38,000)	
COGS		1,817,000
Gross Profit		363,400
Operating Expenses		(200,000)
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	50,000	288,000
Prepaid Expenses		8000
Total Current Assets		296,000

* in order of liquidity

F/G
WIP
RM
} all in inv account.