

# COST ACCOUNTING



## DEFINITION

- Cost accounting
  - a type of accounting process that aims to capture a company's costs of production by assessing the input costs of each step of production as well as fixed costs such as depreciation of capital equipment

## DIFFERENCES BETWEEN MANAGERIAL ACCOUNTING AND FINANCIAL ACCOUNTING

### Cost (managerial) Accounting

- Internally focused
- No mandatory rules
- Both financial and non-financial information (subjective)
- Emphasis on the future
- Decisions based on very detailed information

### Financial Accounting

- Externally focused
- Must follow externally imposed rules
- Financial information
- Historical orientation
- Information about the firm as a whole

## COMPONENTS OF COST

- Direct materials
  - materials that are directly used in making the product, also known as raw materials
  - Ex. wood used to make tables or furniture
- Direct labor
  - labor directly involved in manufacturing the product, including people working with their hands or operating machines used to manufacture the product
- Overhead
  - any cost or expenditure incurred in a project or activity, that does not directly contribute to the progress or outcome of the project or activity.

## STATEMENT OF COST OF GOODS MANUFACTURED

KATRINA'S TRINKETS Schedule of Cost of Goods Manufactured For the Year Ending December 31, 20X6			
Direct materials:			
Beginning raw materials inventory, Jan. 1	\$135,000		
Plus: Net purchases of raw materials	<u>620,000</u>		
Raw materials available	\$755,000		
Less: Ending raw materials inventory, Dec. 31	<u>160,000</u>	◇	
Raw materials transferred to production			\$ 595,000
Direct labor			405,000
Factory overhead			
Indirect materials	\$ 15,000		
Indirect labor	<u>13,000</u>		
Factory utilities	80,000		
Factory depreciation	<u>70,000</u>		
Factory insurance, maintenance, and taxes	<u>22,000</u>		<u>200,000</u>
Total manufacturing costs			\$1,200,000
Beginning work in process inventory, Jan. 1			<u>425,000</u>
			\$1,625,000
Less: Ending work in process inventory, Dec. 31			<u>625,000</u>
Cost of goods manufactured			<u>\$1,000,000</u>

MGT\_Eng\_for\_Acc\_prepared by Nattapan T.

5

## STATEMENT OF COMPREHENSIVE INCOME

KATRINA'S TRINKETS Schedule of Cost of Goods Sold For the Year Ending December 31, 20X6			
Beginning finished goods inventory, Jan. 1	\$ 250,000		
Plus: Cost of goods manufactured (from schedule of work in process)	<u>1,000,000</u>	☆	
Goods available for sale	\$1,250,000		
Less: Finished goods inventory, Dec. 31	<u>190,000</u>	○	
Cost of goods sold (to income statement)	<u>\$1,060,000</u>	△	

KATRINA'S TRINKETS Income Statement For the Year Ending December 31, 20X6			
Sales	\$1,980,000		
Cost of goods sold	<u>1,060,000</u>	△	
Gross profit	\$ 920,000		
Operating expenses			
Selling	\$330,000		
General and administrative	<u>270,000</u>		<u>600,000</u>
Net income			<u>\$ 320,000</u>

MGT\_Eng\_for\_Acc\_prepared by Nattapan T.

6

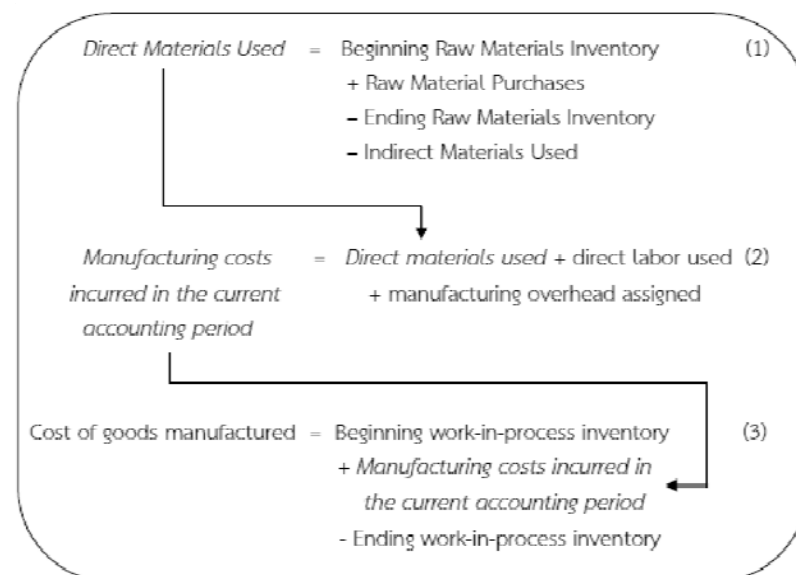
## STATEMENT OF FINANCIAL POSITION

KATRINA'S TRINKETS Statement of Financial Position As at December, 31, 20X6			
Inventories			
Raw Materials	◇	160,000	
Work-In-Process	△	625,000	
Finished Goods	○	<u>100,000</u>	<u>975,000</u>

MGT\_Eng\_for\_Acc\_prepared by Nattapan T.

7

## EQUATIONS



8

## VOCABULARIES

Activity-Based Costing (ABC)  
Beginning Inventories  
Budgeting  
Cost Accounting  
Cost of Goods Sold  
Direct Labor (DL)  
Direct Materials (DM)  
Ending Inventories  
Factory (Plant)  
Finished Goods  
Indirect Labor  
Indirect Materials

ต้นทุนกิจกรรม  
สินค้าคงเหลือยกมาต้นงวด  
การจัดทำงบประมาณ  
การบัญชีต้นทุน  
ต้นทุนขาย  
ค่าแรงทางตรง  
วัตถุดิบทางตรง  
สินค้าคงเหลือปลายงวด  
โรงงาน  
สินค้าสำเร็จรูป  
ค่าแรงทางอ้อม  
วัตถุดิบทางอ้อม

9

MGT\_Eng\_for\_Acc\_prepared by Nattapan T.

## VOCABULARIES

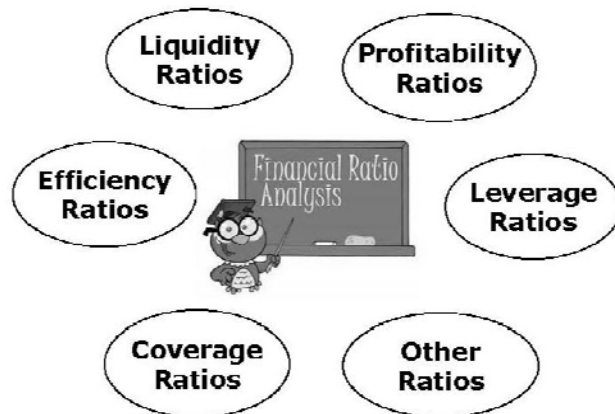
Labor Cost  
Manufacturing cost incurred in the current period (Total manufacturing cost)  
Manufacturing Overhead Cost (OH)  
Raw Material  
Standard costing  
Statement of Cost of Goods Manufactured  
Transfer pricing  
Variance Analysis  
Work-In-Process (WIP)

ค่าแรง  
ต้นทุนการผลิตทั้งหมดที่เกิดขึ้นในงวดนี้  
ค่าใช้จ่ายในการผลิต  
วัตถุดิบ  
ต้นทุนมาตรฐาน  
งบต้นทุนการผลิต  
ราคาโอน  
การวิเคราะห์ผลต่าง  
งานระหว่างทำ

10

MGT\_Eng\_for\_Acc\_prepared by Nattapan T.

## FINANCIAL RATIOS ANALYSIS



11

MGT\_Eng\_for\_Acc\_prepared by Nattapan T.

## FINANCIAL RATIOS

### Liquidity Ratios

- Current ratio  
= CA/CL
- Quick (Acid Test) ratio  
= (CA-INV)/CL

### Efficiency ratios

- Total Asset Turnover  
= Net Sales/TA
- AR Turnover  
= Credit Sales/Average AR
- Collection period  
= 365/AR Turnover
- INV Turnover  
= CGS/Average INV
- Inventory Conversion  
= 365/INV Turnover

MGT\_Eng\_for\_Acc\_prepared by Nattapan T.

## FINANCIAL RATIOS

### Leverage Ratios

- Debt to Asset ratio  
=  $TL/TA$
- Debt to Equity ratio  
=  $TL/E$

### Profitability ratios

- Gross Profit Margin  
=  $(\text{Gross Profit}/\text{Net Sales}) * 100$
- Net Profit Margin  
=  $(\text{Net Profit}/\text{Net Sales}) * 100$
- Return On Assets (ROA)  
=  $(\text{Net Profit}/TA) * 100$
- Return On Equity (ROE)  
=  $(\text{Net Profit}/E) * 100$
- Earnings Per Share  
=  $\text{Net Profit}/\text{Number of Shares}$

MGT\_Eng\_for\_Acc\_prepared by Nattapan T.

## JUST FOR FUN



MGT\_Eng\_for\_Acc\_prepared by Nattapan T.