INTRODUCTION TO COST TERMS AND PURPOSES

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Cost and Cost Terminology

- Cost → resource sacrificed or forgone to achive a specific objectove
- Actual Cost → cost incurred (historical)
- Budgeted Cost → predicted or forecasted
- Direct cost → related to particular cost object and can be traced to it in an economically feasible way (example : raw material)
- Indirect cost →related to particular cost object and can not be traced to it in an economically feasible way (example : staff salary), challenging to allocate

Factors to classification of Direct and Indirect Cost

- The Materiality of the cost
- Available information-gathering technology
- Design of operations

Cost-Behavior pattern

- Variable cost : cost which changes in total in proportion to changes in the related level of total acyivity or volume.
- Fixed cost : cost which remains unchanged in total for a given time periods, despite wide changes in the related level of total activity or volume.

Cost Drivers

- Cost driver is a variable, such as the level of activity or volume that casually affects costs over a given time span.
- Cause and effect relationship between a change in the level of activity or volume and a change in the level of total cost.
- Its chane proportionate changes with the variable cost.

Relationship of Types of Costs

	Allocation of Cost to cost object		
Cost-Bahavior Patern		Direct Cost	Indirect cost
	variable cost	cost object :Kiang Inova	cost object : Kijang inova
		example : karet di bag. perakitan	example : biaya listrik bagian perakitan
	fixed cost	cost object :Kiang Inova	cost object : Kijang inova
		Example : gaji supervisor bagian perakitan	Example : leasing gedung utk pabrik

Total cost and Unit Cost

- Unit cost = average cost

$$\frac{\text{Total manufacturing costs}}{\text{Number of units manufactured}}$$

Business Sectors

- Manufacturing Companies
- Merchandising Companies
- Service Companies

Manufacturing Comp-Types of Inventory

1. Direct Material Inventory
2. Work-in-process inventory
3. Finished goods inventory

Manufacturing Comp-Cost Classification

1. Direct Material cost
2. Diarect Manufacturing labor cost
3. Indirect Manufacturing cost (manufacturing overhead cost)

Period costs

- Also known as nonmanufacturing cost
- Usually mentioned as : expenses

Unika LTD
COST OF GOODS SOLD STATEMENT
FOR THE YEAR ENDING DECEMBER 31, 2000

Beginning work in process inventory, January 1			$ 350,000
Manufacturing costs during the year :			
Direct material :			
Beginning inventory, January 1	$200,000		
Add purchases	800,000		
Direct materials available	1,000,000		
Less ending inventory, December 31	150,000		
Direct materials put into production		$ 850,000	
Direct labor		700,000	
Manufacturing overhead		1,850,000	
Total manufacturing costs incurred during the year			3,400,000
Total cost of work in process during the year			3,750,000
Less ending work in process inventory, December 31			400,000
Cost of goods manufactured during the year			3,350,000
Beginning finished goods inventory, January 1			920,000
Finished goods inventory available for sale			4,270,000
Less ending finished goods inventory, December 31			1,460,000
Cost of goods sold			$ 2,810,000

Unika LTD
INCOME STATEMENT
FOR THE YEAR ENDING DECEMBER 31, 2000

Sales Revenue	$ 4,500,000
Cost of goods sold	2,810,000
Gross margin	1,690,000
Less : Marketing and administrative costs	1,440,000
Operating profit before taxes	$ 250,000

Prime Cost

- Prime cost

Direct Material cost + Direct Manufacturing labor cost

- Conversion cost

Direct manufacturing labor cot + manufacturing overhead cost

Let's try

The following information appears in Alexis Company's record for last year :

Administrative costs		$ 88,600
Manufacturing building depreciation		54,000
Indirect materials and supplies		12,600
Sales Commissions		30,400
Direct Material inventory, January 1		36,800
Direct Labor		71,200
Direct Material inventory, December 31	38,000	
Finished goods inventory, January 1	21,800	
Finished goods inventory, December 31	18,000	
Direct material purchases		44,600
Work in process inventory, December 31		26,200
Supervisory and indirect labor		28,800
Property taxes, manufacturing plant		16,800
Plant utilities and power	47,000	
Work in process inventory, January 1	30,800	
Sales revenue		420,800

- **Prepare an income statement with a supporting cost of goods sold statement.**

The following balances appeared in the accounts of Nishimoto Machine Tool Company during the current year.

	January 1	December 31	
Direct materials inventory	$ 32,800	$ 36,600	
Work in process inventory	36,200	35,400	
Finished goods inventory	14,600	15,000	
Direct materials used	0		173,200
Cost of goods sold	0		600,000

Reconstruct a cost of goods sold statement and fill in the following missing data :

- Cost of direct materials purchased during the year
- Cost of goods manufactured during the year
- Total manufacturing costs incurred during the year

Good luck guys....