

COST ACCOUNTING

31 JULY 2014

Lesson Description

In this lesson we:

- Revise basic cost concepts.
- Prepare a production cost statement.
- Calculate and analyse the total costs of production

Summary

Make sure you revise and understand the following concepts:

- Manufacturing business vs Trading business vs Service business
- Direct material costs vs Indirect material costs
- Direct labour costs vs Indirect labour costs
- Factory overhead costs
- Fixed costs vs variable costs
- Raw materials vs Work-in-progress vs Finished goods
- Other expenses NOT used in production, such as Selling and distribution expenses and Administrative expenses
- The FORMAT of the Production cost statement is VERY important! Make sure you study it well!
- Although we are not covering this today, make sure you revise your break-even point calculations!
- Learn the break-even point formula well.

This section is often tested in conjunction with two other sections, so ensure that you revise:

- Perpetual vs periodic inventory
- FIFO vs Weighted Average Method

Test Yourself

Question 1

For each of the following types of costs, state whether it is fixed or variable **and** which type of cost it is by completing the table below. The first one has been done for you.

Description of cost:	Fixed	Variable	Direct material cost	Direct labour cost	Factory overhead	Non-factory expense
e.g. Rental of the factory	X				X	
1. Cost of raw materials used in production						
2. Factory electricity						
3. Salary of the factory supervisor						
4. Rental of the office						
5. Telephone expense for the shop						
6. Depreciation on factory equipment(on cost)						
7. Wages of the factory cleaner (she is paid hourly)						

notes for...

8. Wages of factory workers who manufacture the product (paid by number of units produced)						
9. Stationery						
10. Salary of the company accountant						



Improve your Skills

Question 1

(Adapted from Nov 2012, DoE, Question 3)

CAPE CHOCOLATES

You are provided with information relating to Cape Chocolates for the financial year ended 30 June 2012. The business is owned by Mary Muller.

REQUIRED:

Prepare the following for the year ended 30 June 2012:

- 1.1 Factory Overhead Note to the Production Cost Statement (20)
- 1.2 Production Cost Statement (Where notes are not required, show calculations in brackets.) (16)

INFORMATION:

1. Stock balances:

	30 JUNE 2012	1 JULY 2011
Direct-/Raw-material stock	R20 000	R18 000
Work-in-process stock	?	R35 000
Indirect material stock	R7 500	R7 200

2. Transactions for the year:

A Raw materials:

- Purchased raw materials during the year, R650 000.
- Raw materials not ordered were returned to the supplier, R35 000.
- Cost of transportation of raw material was an additional R12 300.

B Factory rent paid, R68 500.

C Advertising paid, R23 500.

D Factory maintenance paid, R46 700. Repairs to the amount of R1 300 were completed in June 2012, but will only be paid in July 2012.

E Water and electricity paid, R80 000 (this amount is to be split between the factory, 70% and the office, 30%).

F Indirect material purchased, R56 000. Note that stocks are on hand at the end of each year (see Information 1 above). 80% of the indirect materials were used in the factory and the rest in the office.

G Depreciation written off:

- Office equipment, R9 500
- Factory machinery, R12 800

