

COST ACCOUNTING

Costing can be defined as a process of determining the cost of a product or services. When an accountant speaks of costing, he or she has in mind the ascertainment of;

- a. Cost of manufacturing new product
- b. Cost of rendering new services.

The word cost has different meanings depending on the context in which it is applied. Generally, cost is considered as a sacrifice made to achieve/acquire something or provide services for products.

Costs of asset which are used-off or sold depending on the financial year are called expenses.

MANAGEMENT ACCOUNTING

This is concerned with the use of costing information to take decisions that involve future activities of the organization.

Management accounting is predictive in nature. It also acts as a guide for management decision making.

Scope and Function of Cost and Management Accounting

Cost Accounting pays considerable attention to actual past cost figures. The purpose of this is to know what it would cost to produce a part commodity/product or services.

Therefore cost accounting involves accounting for cost i.e. explaining how they are rules and detailing where they went. Management accounting guides future economic activities. With costing, details can be established:

- a. What product to produce
- b. What price to fix for the product
- c. What quantity to be produced
- d. What material to use and where to buy
- e. Whether this company should lease or rent or acquire production plant
- f. Maximum or minimum labour rate

Principles of Costing

Although there are varieties of cost accounting techniques and methods, all with their own statement, there are numbers of costing principles that would be held in all but most exceptional cases. These principles can be summarized as follows;

1. The cost should be related as closely as possible to its **cost**
2. A cost is not charged until it is incurred
3. The prudence convention should be ignored
4. Exclusion of abnormal cost
5. Past cost are never charged to future cost
6. Profit appropriation are excluded from cost

As a commodity or service is used up, such cost are called expired cost and the unusual portion is called unexpired cost also known as an asset.

E.g. A certain P & E was procured at the rate of N100,000 and after a certain period, at the end of the period, N20,000 was recorded as used up or depreciation. The amount that is used up is known as the expired cost. In most cases, manufacturing would involve cost other

than materials which may include labour and materials which may include labour and overheads. In order to successfully carry out the process of determination of cost of production; cost of materials, labour and overheads must be added up. To do this successfully, there must be a functional system of data flow which will record material issues labour hours and other relevant expenses pertaining to production.

Basic Definitions Associated with Costing are as follows:

1. Product Cost: This is the cost incurred in producing an item or service. This cost will include M & L overhead cost.
2. Prime Cost: This is the cost that involves all direct materials, labour and overhead that is associated with the cost of a part, product or services.
3. Expired Cost: This is the cost whose value has been consumed or used up.
4. Unexpired Cost: This is the cost whose value has not been consumed or used up.
5. Periodic Cost: This is the cost that is being associated with time interval.
6. Fixed Cost: These are costs that do not change with production level.
7. Variable Cost: These are costs that changes in relation to the production level or output.
8. Semi-Variable Cost: These are costs that have characteristics of both fixed and variable cost. i.e. some of the cost remain static, it does not depreciate in the production level while some times it changes drastically with the production level.

Classification of Cost

1. Material
2. Labour/wages
3. Expenses/overheads
Others;
Direct expenditure
Indirect expenditure

Direct expenditure are made up of all direct material, labour and overheads. While indirect expenses are made up of all indirect material, labour and overheads.

Direct materials: These are materials that are used directly in the production proper and which can be traceable to the product itself. E.g. matches production.

Direct labour: These are cost of operatives/cost of hiring workers who are directly engaged in production process.

Direct Expenses refers to the expenses that are directly incurred in the production process. These costs are usually small in nature, e.g. cost of making a sketch or drawing.

Indirect Expenditure: This refers to indirect material, labour and overheads which cannot be seen or traceable to the production process of a commodity/products or rendering of services.

Indirect materials labour or expenses can also be known as overheads e.g. payment or rate, rent, tax or workers' salaries. While direct material, labour and expenses also be referred to as prime cost.

Summary:

$$DM + DW + DC = PC$$

$$PC + POH = \text{MANUF. COST}$$

$$\text{MANUF. COST} + \text{ADMOH} = \text{TC OR COST OF SALE}$$

Where;

DM = Direct Materials

DW = Direct Wages

DE = Direct Expenses

PC = Prime Cost

POH = Production Overhead

ADMOH = Admin Overhead

TC = Total Cost

Preparation and Presentation of Cost Accounting Statement

The purpose of cost accounting is to present information to management for decision making. And in so doing, the cost accountant must be as orderly as possible. The following information of data was extracted from Gift and Co. Limited in the production of 3 lines of products.

Product	A	B	C	Total Cost
	₦	₦	₦	₦
Direct Material	10,000	15,000	20,000	45,000
Direct Wages	5,000	10,000	15,000	30,000
Direct Expenses	<u>2,000</u>	<u>3,000</u>	<u>5,000</u>	<u>10,000</u>
Prime Cost	17,000	28,000	40,000	85,000
Admin. Expenses	8,000	12,000	13,000	33,000
Selling Expenses	<u>7,000</u>	<u>0,000</u>	<u>22,000</u>	<u>37,000</u>
TOTAL COST	32,000	48,000	75,000	155,000
	(50,000-32,000)	(40,000-48,000)	(80,000 – 75,000)	
PROFIT/LOSS	18,000	22,000	5,000	45,000
SALES	80,000	70,000	80,000	200,000

Costing Profit and Loss Account for Gift & Co. Ltd.

Dr		Cr	
Material Consumed	45,000	Sales	200,000
Wages	30,000		
Expenses/Overheads	<u>10,000</u>		
	85,000		
Gross profit (200,000 – 85,000)	<u>115,000</u>		
	<u>200,000</u>		<u>200,000</u>
Admin. Expenses	33,000	GP c/o	115,000
Selling Expenses	37,000		
Net Profit	45,000		
	<u>115,000</u>		<u>115,000</u>

(Meat Pie) a cost for one unit of product

Direct material	25,000
Direct wages	15,000
Direct expenses	<u>20,000</u>
Prime cost	60,000
Add:	
Factory overheads	<u>10,000</u>
Total factory cost	70,000

Admin. Expenses	10,000
Selling Expenses	<u>20,000</u>
Total Cost	100,000

10% - profit

(10% x 100,000) = 100,000

10,000 + 100,000 = 110,000 – selling price

Selling price = 110,000

A firm's manufacturing, trading P & L account for the year ending 31st December, 1994 was as follows:

Manufacturing Account				
	₦	₦	₦	₦
Raw	10,000		Manuf. Cost of 11,000 units	
Wages	15,000		Stock	33,000
Factory Expenses	8,000			
Opening Stock				
Closing Stock				
	<u>33,000</u>	<u>33,000</u>		<u>33,000</u>

Stock Account			
	₦		₦
Balance 1. Jan.	15,000	Transferred to Trading A/C	30,000
Transferred from Manuf. A/C	<u>33,000</u>	Bal. in Stock 6,000 @ 3,000	<u>18,000</u>
	<u>48,000</u>		<u>48,000</u>

Trading Account

	₦		₦
Manufac. Cost of goods sold	30,000	Sales: 10,000 units @500	50,000
G.P	<u>20,000</u>		
	<u>50,000</u>		<u>50,000</u>
Admin. Expenses	5,000	G.P c/d	80,000
Selling Expenses	3,000		
Direct Expenses	2,000		
Net Profit	<u>10,000</u>		
	<u>20,000</u>		<u>20,000</u>

You are required to as a cost accountant to present the above data in the most acceptable costing format by showing the production cost statement, the cost of sales and costing profit and loss account.

Production Cost Statement

Prime Cost	Total Cost	Unit + Cost/Cost + Unit
Direct Material	10,000	
Wages	15,000	
Expenses	-	
	25,000	<u>(25,000)</u>
		11,000
		2.27

Production Cost Statement

Prime Cost		Total Cost	Unit Cost/Cost/Unit
<u>Production Overhead</u>			
Indirect materials			
Indirect wages			
Indirect expenses	<u>8,000</u>	<u>8,000</u>	<u>0.73</u>
		11,000	
Total production cost	33,000		3.00

Cost of Sales	Sales 10,000 units	
Production cost of sales (10,000 x 3.00)		30,000
Admin overhead		5,000
Selling overhead		3,000
Dist. overhead		<u>2,000</u>
Total cost of sales		<u>40,000</u>

Costing Profit & Loss A/C

	₦		
Cost of sales	40,000	Sales	80,000
Net profit	<u>10,000</u>		
	<u>50,000</u>		<u>50,000</u>

Question:

Esther and Sons Ltd has the following cost data for Jan. 1996 with respect to job for Okono materials: steel rod 150 tons @ N7.5k per ton.

Nail and bolts 20 tons @ N400 per ton

Sun timber 250 planks @ N9 per plank

Wood vanish 24 tins @ N10 per tin

Wages: Direct hour carpentry 30 tons @ N10 per hour

Assembly 12 hrs @ N9 per hour

Indirect hours (supervision)

Carpentry 16 hours

Assembly 8 hours

Production overheads have been put @N12.50k and N1.75k per h for carpenters and assembly stops. Marketing and administrative cost are determined @ 20% of product cost.

- Required prepare a cost statement for presentation to management showing 40% markup on total cost.
- Distinguish between direct and indirect material giving 5 examples each.

PRODUCTS	A	B	C	TOTAL
Detail: Material	9,600	7,400	13,000	30,000
Wages	3,000	3,000	6,000	14,000
Production overhead	<u>1,000</u>	<u>1,200</u>	<u>1,800</u>	<u>4,000</u>
Production cost	13,600	13,600	20,800	48,000
Admin. Expenses	1,400	1,600	1,000	4,000
Selling & Dist. Expenses	<u>600</u>	<u>800</u>	<u>600</u>	<u>2,000</u>
	15,600	16,000	22,400	54,000
Profit/Loss	4,580	5,600	(4,480)	54,000
Sales	20,180	21,600	17,920	59,700

Financial Statement

Material consumed	30,000	Sales	59,700
Wages	14,000		
Pro. overhead	<u>4,000</u>		
	48,000		
G.P	<u>10,900</u>		
	<u>59,700</u>		<u>59,700</u>
Admin Expenses	4,000	G.P b/d	10,900
Selling & Dist. Expen.	<u>2,000</u>		
	6,000		
Net Profit	<u>4,900</u>		
	<u>10,900</u>		<u>10,900</u>

INVENTORY CONTROL

There are 3 types of inventory/inventories

1. Finished Goods
2. WIP
3. Material

Finished Goods: They are goods that have gone through all their production processes and are ready for sale. e.g. a car in a showroom and television in the market. Already lying books in the bookshop and any other finished product in the market.

WIP: These are items still in the production line; they are neither finished goods nor raw materials. They could also be described as partly finished goods.

Materials: These are basically items that are used in the production of the goods. e.g. rubber for plastics, cotton for clothing, etc.

Under this inventory control, we'll be concerned with material control. This is concerned with the process of;

1. Making requisition for items, exceeded in the factory.
2. Actual purchases of the item needed in the factory.
3. The storage of the materials purchased.
4. Issues

Material Control is a management function, it entails planning, organizing and controlling of all activities involved in the procurement, receipt, storing and issue of raw materials needed for production.

PURCHASING

This is the procurement of materials for production purposes. It is a very specialized function in the large organization or industry. A well organized purchasing system reduces production delays, it reduces cost, it reduces scraps. Purchasing is usually carried out purchasing department.

Functions of Purchasing Department

1. They are solely responsible in the purchase of materials.

2. They keep record of all the P and quotation for all materials.
3. They are saddled with the responsibility of being in constant contact with suppliers and manufacturers of all the materials needed for production purposes.
4. They are responsible in reforming the management of the overall market situation.
5. They are in charge of making arrangement for conveyance of the purchase material to the factory.
6. They also ensure that the organization enjoy all trade benefits available.

Purchasing Procedures

Step 1: Purchase Requisition: The users of any kind of material in the factory would always indicate their demands to indicate what they desire by informing the purchase department to produce a particular material for their use. The purchase requisition document must state clearly the quantity of material needed, the quality specification and possibly the codes.

Step 2: Request for Suppliers and Send: The purchase department will request for suppliers by asking them to send in their quotations.

Step 3: Receive and Scrutiny of Quotation: The purchase department receives quotation from suppliers as requested and scrutinize them with respect to price, quantity and quality, if they meet all the requisition standard.

Step 4: Choosing Suppliers: Depending on the policy of a party organization, a supplier can be chosen either by the production department or purchasing department.

Step 5: Purchasing: A purchase order is then issued from the purchasing department to the supplier, so chosen specifying the types, quality and quantity of the material needed. The rate and amount will also be indicated in order to know the total volume of goods.

Step 6: Receipt of Material: The materials so ordered is being received by the store department and a receipt is issued to the supplier after checking to know if the quality, quantity and price is in conformity with the said specification.

ECONOMIC ORDER QUANTITY

Sometime it becomes useless for the production department to initiate any purchase requisition. This is because the needed material have already been purchased in advance in anticipation of any damage in the production department. By so doing, a purchase plan is approved, the purchase department may order a reasonable quantity of the material at a reasonable frequency to meet the future demand of the production department. It is therefore necessary for the purchasing department to be economically in terms of cost reduction by maintaining a reasonable order quantity at a time.

However three approaches are generally accepted for the department of EOQ these are;

1. Tabular Approach
2. Formula Approach
3. Graphic Approach

1. **Tabular Approach:** As the name implies, some tabulation is done in order to arrive at the needed quantity, for e.g. assume that the annual material requirement of Company XYZ Ltd in a part year is 1,000 unit and the Company usually buys from a foreign firm at the cost of ₦5 per unit and the cost of ordering and receiving/delivery

of an order is ₦5 each time they order. The carrying cost of the Company is 25% of the average stock per year. The Company order at each time each of the following frequently in a year.

- Once
- Four times
- Five times
- Eight times
- Ten times

EOQ is determined thus;

No. of order	1	4	5	8	10
Order size (unit)	1,000	250	200	125	100
Average stock volume	500	125	100	62.5	50
Average stock cost	2,500	625	500	312.5	250
Carrying cost	625	156.25	125	78.13	62.5
Order cost	<u>25</u>	<u>100</u>	<u>125</u>	<u>200</u>	<u>250</u>
CC + OC	650	256.25	250	278.13	312.5

From the above tabular illustration, the one that shows the least cost incurred is at a frequency of 5 times. Therefore, it is the most economical for the Company to place order five times during the year and with the order size of 200 unit each time of the order.

Therefore the economic order quantity is 200 unit.

$$EOQ = \frac{\sqrt{2AP}}{H}$$

Where:

A: Annual material requirement

P: Ordering cost per order

H: Carrying cost per unit

$$EOQ = \frac{\sqrt{2 \times 1000 \times 25}}{25\% \times 5} = \frac{2 \times 1000 \times 25}{1.25} = \frac{50,000}{1.25}$$

$$\sqrt{40,000} = \underline{\underline{200}}$$

Stock Level (SL)

In inventory control, a good knowledge of stock level is very important. As stock level may fall below the minimum level thereby resulting in stock out which may lead to production stoppage. Also, if a firm stock up material beyond the maximum level, this will result in extra carrying cost thereby leading to no profitability. It is always advisable of a firm to always maintain normal or average stock level which exists between the maximum and minimum level.

The minimum level is fixed as a buffer or safety stock to care of expected maximum material consumption. The knowledge of this is what leads to re-order level. This is a level at which it is necessary to place an order for supply or more materials. This level is higher than minimum but lower than maximum level. In order to ascertain each of this level, we need to

ascertain the E.O.Q, the lead time. This is the time interval between placing an order and reception of the supplies, and the rate of material consumed or used. E.g. assume E.O.Q is 200 unit, lead time is between 2.4 weeks, maximum usage is 80 unit per week, minimum usage is 20 unit per week, normal usage is 50 usage per week.

Calculate

Re-order level

Minimum stock level

Maximum stock level

Solution:

Re-order = Maximum usage x maximum lead time

Minimum Stock Level = Recorded level – normal usage x normal lead time

Maximum Stock Level = Recorded level – minimum usage x minimum lead time + E.O.Q

1. Recorded Level = $80 \times 4 = 320$ units
2. Minimum Stock Level = $320 - (50 \times 3)$
 $= 320 - 150 = 170$ units
3. Maximum Stock Level = $320 - (20 \times 2) + 200 = 280 + 200$
 $= 480$ units.

Nature of Stocks

Material storage is another imp. Function of material management. It is an act of carelessness to abandon material acquired at the factory premises without adequately taking care of them to avoid losses which may be as a result of attacks from insects, rodents or even theft by people, damaged by fire. An ideal store keeping guarantees protection against all these mentioned above. Every manufacturing business requires a store for the safe keeping of the RM which can be used for production purposes. The size of a part business determines the nature and size type of storage facilities needed.

Different Types of Store

Central = Y maintained by mother branch

Departmental stores

Branch/zonal stores

WIP store

Functions

These are summarized as follows:

- 1) They receive and maintain custody of raw materials, spare parts, tools, WIP and physical products.
- 2) They are in charge of issuing of materials, spare parts, tools, etc. when required by any department.
- 3) They account for all the receipt and issue of raw materials, tools, spare parts, etc.
- 4) They organize effectively the materials in store to avoid losses.
- 5) They determine the appropriate storage facilities required by the firm.
- 6) They assist in stock taking from time to time.
- 7) To advise management in regards to store secondary and disposal of spoilt or obsolete items in the store.
- 8) They determine the adequacy of training necessary for the store personnel.
- 9) To liaise timely with the sub-stores and other department to ensure sufficiency and productivity.

Issue of Materials

In issuing of materials from store, strict rules must be followed, this is done by presentation of properly authorized store or materials requisition. When materials used are purchased specifically for jobs, they are charged then to the net invoice price, plus delivery charge to works. But were issues are made from general stores, purchase at different prices, the necessary pricing is sometimes a different matter. Therefore, the principal methods used in this practice are as follows:

- 1) First in first out (FIFO)
- 2) Last in first out (LIFO)
- 3) Weighted average
- 4) Standard price

1. **FIFO:** Summarily, this method assumes that the materials are used up in the same sequence as they were purchased. That is the older material has to be used up first, followed by subsequent ones.

E.g. Jan. 1

Purchase 10,000 unit of tyre @ ₦500/tyre

Jan 15

Purchase 10,000 unit of tyre @ rate of ₦600/tyre

Date	Receipt			Issue			Balance		
	Qty	Price	Value	Qty	Price	Value	Qty	Price	Value
Jan 1	10,000	500	5,000,000	10,000	500	5,000,000	-	-	-
	<u>10,000</u>	<u>600</u>	<u>6,000</u>	2,000	600	120,000	8,000	600	4,800,000
	20,000	1,100	11,000,000						

LIFO = > Last in first out
Interchange the price

Weighted Average

Addition of all the prices divided by the number of prices.

Standard Price

All goods will be issued at a standard price.

Labour

Labour is an element of cost associated with remuneration of the human element of an organization. This human element directly or indirectly makes effort in transforming the raw material to their desirable state.

An organization must ensure that its labour cost are controlled because they could drastically affect the overall profit of the organization for the year.

Diminishing labour efficiency may mean depleting profit, so every organization that has a profit motive device a means of labour cost control. The control of labour start with the plan to engage labour force.

Labour Cost Element

These elements are listed as follows:

- 1) Emolument
- 2) Fringe benefit
- 3) Social cost

Emolument: These are the actual earning of a worker. They include basic salary, overtime paid, commission, bonuses, etc.

Fringe Benefit: This includes, rent subsidy, transport allowance, leave grant, water and telephone allowance, paid expenses, sick pay allowance, maternity allowance.

Social Cost: This includes pension scheme, funding for TV, security, housing, running of staff canteen.

Labour Turnove Rate

This is often closely linked to level of remuneration. This shows, the lower the remuneration, the higher the turnover.

$$\text{Labour turnover} = \frac{\text{No. of employee replaced during the year}}{\text{Total No. of employee during the year}} \times \frac{100}{1}$$

This labour turnover shows:

- 1) Are workers moving away dissatisfied with the job remuneration, bonus, working condition or what?
- 2) Is it illness, marriage or pregnancy, domestic responsibility, retirement?
With this guess, the management will now have to make adjustment to get the desirable position.

Operating or Service Costing

Service costing is the costing of provided services such as catering, transportation, health and etc.

Operating cost is therefore a format process costing. Unit costing is applied where production is in term of services rather than goods.

Example. Transportation, Travel Agencies, hospital services, joint and by-product costing.

This is one of the features of cont. processing of manufacturing that is more than one product may emerge from the production processes e.g. refining industry, which shows that the treatment of crude oil may result in the production of petrol, PMS, diesel AGO & kerosene DPK.

PMS – Premium Motor Spirit: Joint product by way of definition are two or more product separated in the cost of manufacturing, each being an equally important product for sale or for passage to further production processes.

Features of Joint Product

- a) Two or more products are of comparable importance in terms of value of quantity.
- b) They are yielded by the same manufacturing operation or sense of operation.
- c) There is always a point of separation. i.e. a split off point of which a product becomes clearly distinguishable.
- d) Direct consequence of C. certain cost incurred will be reasonably considered joint cost before assuming separate identities.
- e) The product may be put up for sale after the point of separation or by subject to further processing before sales.
- f) Usually the product have a market evaluation which may give rise to a profit or loss on processing, e.g.

Gift Esther and Aniekan Limited is an independent petroleum manufacturer, producing it product from one process. The production process yielded petrol, diesel, kerosene. A joint cost before the process of separating goods at ₦150,000. The available data for the period are as follows:

	PETROL	DIESEL	KEROSENE	TOTAL
Q Produced (Barrel)	5,000	3,500	1,500	10,000
Est. Market Value	92,000	84,000	24,000	200,000

Required

Apportion the joint cost among the product and write up the joint cost account.

Three methods involved

- a. Physical Quantity Method:

$$\frac{\text{Qty of Joint Product} \times \text{Joint Cost}}{\text{Total Quantity Produced}}$$
- b. Market Value Method:

$$\frac{\text{Estimated market value of a product} \times \text{Joint Cost}}{\text{Total Estimated Market Value}}$$
- c. Unit Cost Method:

$$\frac{\text{Total joint cost for all product}}{\text{Total unit product}}$$

Apportionment of Joint Cost

Joint Product	Physical Method	Market Value	Unit Cost
Petrol	$\frac{5,000}{10,000} \times 150,000 = 75,000$	$\frac{92,000}{200,000} \times 150,000 = 69,000$	$5,000 \times 15 = 75,000$
Diesel	$\frac{3,500}{10,000} \times 150,000 = 52,500$	$\frac{84,000}{200,000} \times 150,000 = 63,000$	$3,500 \times 15 = 52,500$
Kerosene	$\frac{1,500}{10,000} \times 150,000 = 22,500$	$\frac{24,000}{200,000} \times 150,000 = 18,000$	$1,500 \times 15 = 22,500$

Joint Product Account

	Petrol	Diesel	Kerosene
Product Cost	75,000	52,500	22,500

Cost of Labour Turnover

When workers move away as a result in the lower total remuneration paid in form of basic emolument and fringe benefit.

The following cost are associated with labour turnover.

- Cost of production when new employee are engaged and trained.
- Cost of filling new vacancies e.g. (advertisement, interview, etc).
- Training cost of new employee.

High labour turnover could demoralize existing labourers/workers and cost low production.

Remuneration

There are two main methods:

- Time base
- Output/performance related method

Time Base: It is a remuneration that is time bound such as fixed salary grade level in civil service. The fixed salary scale is easy to operate but encourages laziness so workers are paid without reference to output.

Output Related Performance: This has the following vacancies;

- Straight piece work
- Differential piece work
- Piece work time method
- Time base method

Answers to Test Questions

No. of order	2	4	6	8	10
Order size (unit)	1000	500	333.3	250	200
Average stock	500	250	166.5	125	100
Average stock	5000	2500	1665	1250	1000
Carrying cost	1500	750	500	375	300
Order cost	60	120	180	240	300
	1560	870	680	610	600

$$EOQ = \frac{\sqrt{2AP}}{H}$$

$$= \frac{\sqrt{2 \times 200 \times 30}}{30\% \times 10}$$

$$= \frac{\sqrt{4000 \times 30}}{30\% \times 10}$$

$$= \frac{\sqrt{120,000}}{3}$$

$$\sqrt{40,000}$$

$$EOQ = \underline{\underline{200}}$$

JOB COST ACCOUNTING

Job order costing method is used when goods are produced in distinct batches. The Institute of Cost and Management Accountant defined job costing method as the basic method applicable where the works consist of separate contract job or batches, of which is authorized by a special order.

In a job order, each work is undertaken to meet the cost. Special requirement and the jobs are of reasonably shorter period of time. The basic objective of job order costing is to establish the production cost of each job and to provide the basis for the evaluation of ending waste in production. An aspect of job order costing is the batch costing system which is applied when a specified quantity of identified product are produced as a batch.

A situation can arise when a customer raises an order for a specified quantity of identical product or where there is an internal request to produce identical goods to replenish the exhausted stock. The cost procedure for job are however similar to that of batches. The batch is considered as a job during the process of manufacturing. Below is a problem illustrating the application of the job order costing process.

Question:

Imoh Plc engaged in the following transaction for the month of April, 2017.

- a. Raw material of N182,000 were purchased on account.
- b. Raw material of N2,000 were returned to the supplier because of defect.
- c. The total of store requisition for direct material issued for the period was N165,000.
- d. The total issues for indirect material during the period was N10,000.
- e. Gross wages of N155,000 were incurred during the period consisting of
 - i. Wages paid to employee N105,000
 - ii. Payment due to inland revenue N60,000
 - iii. National insurance contribution N20,000
- f. All the amount due in transport were settled by cash during the period.
- g. The allocation of gross wages for the period were as follows:
Direct wages N45,000
Indirect wages N40,000
- h. The employers contribution for national insurance deduction was N25,000.
- i. Indirect factory expenses of N1,000 were incurred during the process.
- j. Dep. of factory machine was N30,000.
- k. Overhead expenses charged to job by means of factory overhead rent was N140,000 for the period.
- l. Won-manuf. Overhead incurred during the period was N40,000.
- m. The cost of jobs completed and transferred to finished goods store N300,000.
- n. The sales value of goods withdrawn from stock and delivered to customers was N400,000 for the period.
- o. The cost of goods withdrawn from stock and delivered to customers was N240,000 for the period.

Required:

1. Journalize the necessary transactions
2. Draw up the ledger and extract the cashing P & L account.

JOURNAL STORIES		DR	DC
A	Raw material inventory	182,000	
	Central account payable		182,000
	Materials purchased on credit		
B	Account payable	2,000	
	Raw material inventory control account		2,000
	Defective material returned to supplier		
C	W/P	165,000	
	Material inventory account		165,000
	Being raw material issued to job		
D	Manuf. overhead control	10,000	
	Manuf. supplies account		10,000
	Indirect material issued to job		
E	W/P	145,000	
	Wages & salaries		145,000
	Direct wages incurred on the job		
G	Manuf. Overhead	40,000	
	Wages & salaries		40,000
	Indirect wages paid on the job		
I	Manufact. Overhead	41,000	
	Factory expenses		41,000
	Being factory cost incurred on the jobs		
J	Manufacturing control account	30,000	
	Depreciation account		30,000
	Being depreciation on factory machinery		
K	W/P	140,000	
	Manufacturing overhead		140,000
	Being manufac. overhead applied to the job		
L	Non-manuf. overhead	40,000	
	Cash		40,000
	Being non-manuf. overhead incurred during the period		
M	Finished goods inventory	300,000	
	W/P		300,000
	Jobs completed and transferred to store		
N	Account receivable	400,000	
	Stocks		400,000
	Sales made during the period		
O	Cost of goods sold	240,000	
	Finished goods inventory		240,000
	Being cost of finished goods delivered to customers		

Ledger Account

Raw Material Inventory Account	
Account payable	2,000
	WIP
	165,000
	Balance
	<u>15,000</u>
	<u>182,000</u>
Balance c/d	150,000

Account Payable

Raw materials	2,000	Raw material	182,000
Balance	<u>180,000</u>		<u>182,000</u>
	<u>182,000</u>		<u>182,000</u>
		Balance c/d	180,000

WIP Account

Raw materials	165,000	Finished goods inventory	300,000
Direct labour	145,000	Balance	150,000
Manufac. overhead	<u>140,000</u>		<u>150,000</u>
	<u>450,000</u>		<u>450,000</u>
Balance c/d	150,000		

Manufacturing Account

Manuf. Supplier Inventory	10,000	WIP	140,000
Wages & Salaries	40,000		
Factory Exp.	4,000		
Dep. Incurred	30,000		
Cost of goods (Bal)	<u>19,000</u>		<u>140,000</u>
	<u>140,000</u>	Balance	19,000

Wages & Salaries Account

WIP	145,000	Cash	185,000
Manuf. overhead	<u>40,000</u>		<u>185,000</u>
	<u>185,000</u>		<u>185,000</u>

Income costing P & L for the month

April 2017

Cost of goods sold	240,000	Sales	400,000
Gross profit	<u>160,000</u>		<u>400,000</u>
	<u>400,000</u>		<u>400,000</u>
Expenses:		G.P b/d	160,000
Non. Manufac. expenses	40,000		
Net profit	<u>120,000</u>		<u>160,000</u>
	<u>160,000</u>	Net Profit c/f	120,000