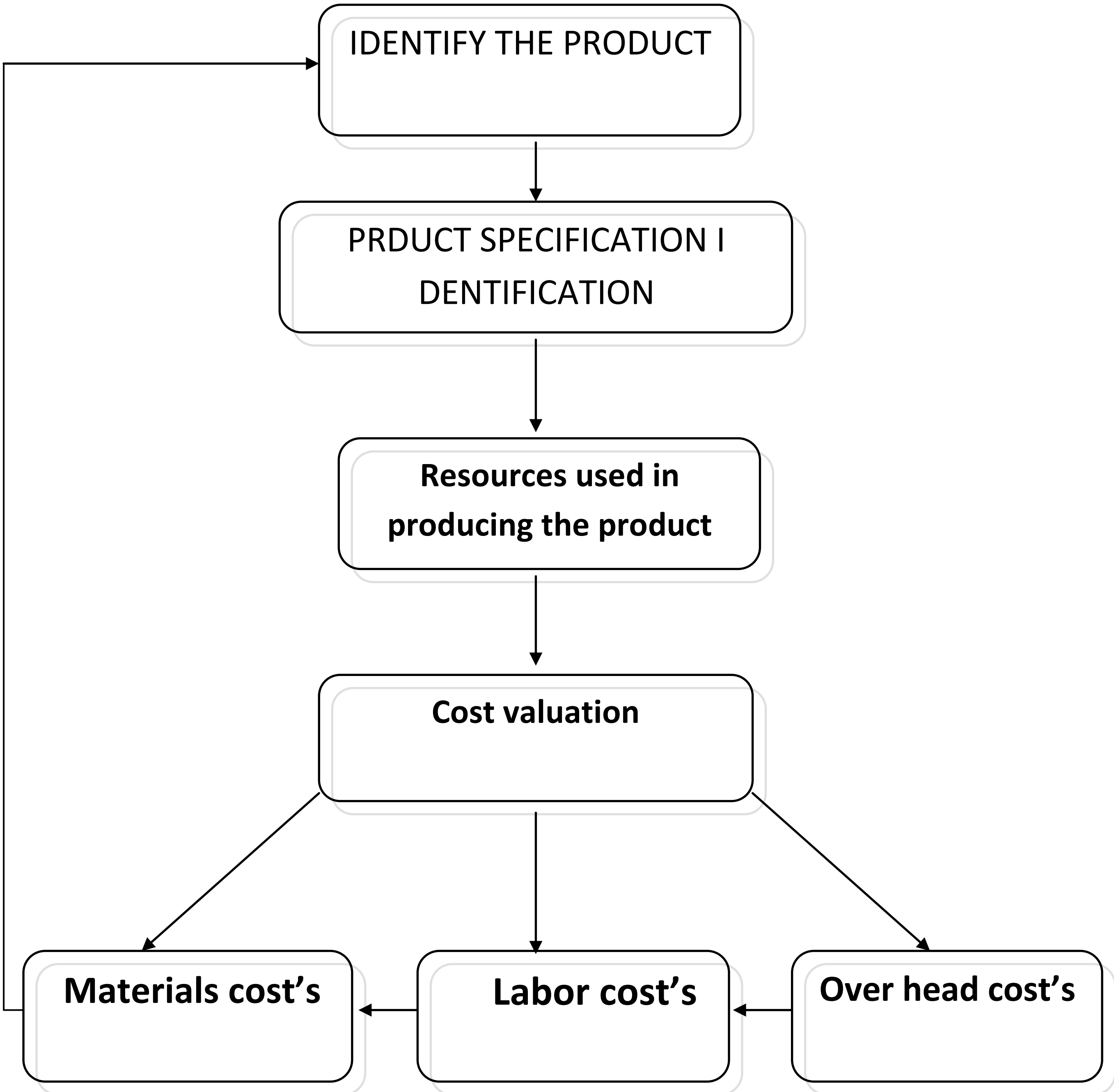
Cycle of costing accounting



- **Costs classification by items**

1- **material cost**
2- **labor costs**
3- **overhead costs**

- **Costs classification Manufacturing**

  1- **Marketing**
  2- **Administrative**
  3- **Environmental**

Example(1):

The following is the information of costs production and sales of EL- moneer company for the year 2003

Beginning inventory of direct materials	**15000**
Purchases of direct materials	**180000**
Ending inventory of direct materials	**20000**
Direct labor costs	**65000**
Electricity costs of plant	**8000**
Depreciation expense – equipment	**12000**
Other manufacturing overhead (60% variable)	**16000**
Beginning inventory of finished goods (in units)	**1300**
Produced units	**6400**
Ending inventory of finished goods (in units)	**1200**
Cost per unit of finished goods for the year 2002	**41**
Marketing costs	**17500**
Administrative costs	**14200**
Selling price per unit	**70**

Instructions :

1- **prepare manufacturing costs statement classified into direct and indirect costs for the year 2003**
2- **prepare the previous costs statement classified, into variable and fixed costs**
3- **prepare the income statement for the year 2003**

Solution:

El-moneer company manufacturing costs statement for the year 2003
(classified into direct indirect costs)

Details	Cost per unit	Quantity	Sub total	total
<u>Manufacturing costs for the year</u>				
<u>1) Direct costs</u>				
Beginning inventory			**15000**	
Plus : purchased			**180000**	
			195000	
Less : ending Inv			**(20000)**	
Direct materials			**175000**	
			+	
Direct labor			**65000**	
Total direct costs				**240000**
Over head costs				
Electricity			**8000**	
Depreciation			**12000**	
Other overhead			**16000**	**36000**
Cost of finished goods	**43.12**	**6400**		**276000**
Add cost Of finished goods at the begin of the year	**41**	**1300**		**53300**
				325200
Less: Costs of finished goods at the end of the year	**43.12**	**1200**		**(51747)**
Costs of goods soled	**42**	**6500**		**273456**

Sold unit = produced units + beginning Inventory – Ending Inventory

Sold unit = 6400 + 1300 – 1200 = 6500 units

El-moneer company manufacturing costs statement for the year 2003
(classified into Variable and Fixed costs)

Details	Cost per unit	Quantity	Sub total	total
Manufacturing costs for the year:				
Variable costs:				
1- direct costs				
direct Materials			175000	
direct labor costs			65000	
				240000
Indirect Variable costs				
Electricity costs			8000	
Other overhead			9600	
				17600
Total variable costs				257600
Fixed costs				
Depreciation cost			1200	
Other overhead			6400	
Total fixed cost				18400
Total cost of finished goods	43.12	6400		276000
Add: cost of finished goods at the end of the year	41	1200		49.200
				325.200
Less:				
Cost of finished	43.12	1200		51.744
Goods at the end of the year				
Costs of goods sold				273.456

El- moneer company

Income statement for the year 2003

Sales revenue			**455**
(6500 units X 70L.E)			
less:			
costs of goods sold		**273.456**	
marketing Costs		**17.500**	
			(290.965)
Gross profit			**164.044**
Less:			
Administrative costs			**(14.200)**
Net income			**149.844**

Break even point

$$\text{Break even sales} = \frac{\text{total fixed cost}}{\text{Contribution margin}}$$

(sales price unit – variable cost unit)

Break even point pound = Break even point unit's × sales price unit

$$\text{TARGT PROFIT} = \frac{\text{total fixed cost + Profit Target}}{\text{Contribution margin}}$$

Margin safety = sales total – break even sales Volume

Example

Variable cost	80 pre unit
Fixed cost	130000
Selling price	150
and sold unit	3000

Instruction

1) prepare income statement for the year 2008 to compute profit margin and net income
2) compute the break even sales
3) compute the sales volume profit target 60000 L.E
4) compute margin safety

Income statement 2008

Sales revenues **(produced sold × selling price)** **(3000 × 150)**		**450000** **-**
Less variable cost **(produced sold × variable cost pre u** **(3000 × 80)**		**240000**
Contribution margin		**210000** **-**
Less fixed cost		**130000**
Net income		**80000**

$$\text{Break even point unit's} = \frac{\text{total fixed cost}}{\text{Contribution margin}}$$

(sales price unit – variable cost unit)

$$= \frac{130000}{150-80}$$

$$\text{TARGT PROFIT} = \frac{\text{total fixed cost + profit target}}{\text{Contribution margin}}$$

$$= \frac{130000 + 6000}{150 - 80}$$

Margin safety = sales total – break even point pound

3000 - 185 = 1143/U

Example

Manufacturing costs of unit 180
Marketing costs pre unit 15
Other additional costs 25000
Expected produced unit 2000
Selling price pre unit 300
Additional investment 400000
Deprecation expenses
(10% straight line method)

Instruction

1)Compute the additional net income of the above mentioned investment
2)Compute the annual cash flows generated
3) compute payback period and rate of return on investment

Income Statement

Additional revenues		600000
(expected produced * selling price)		
(2000 × 300)		
		--
Less cost of goods sold	360000	
Manufacturing costs		
(2000 × 180)		
Marketing costs	30000	
(expected produced *mark)		
(2000* 15)		
Deprecation expenses	40000	
(investment × ratio ÷ 100)		
400000 × 10 ÷100		430000
Gross profit		170000
Less		
Administrative costs		25000
Net income		145000

Annual cash flows

additional net income	145000
add	
Deprecation expenses	40000
(investment * ratio / 100)	
400000* 10/100	
Annual net cash flows	185000