Managerial Accounting
Chapter 2: Cost Terms, Concepts & Classifications

Answer key

1. a-

PJP's Manufacturing
Cost of Goods Manufactured

- Direct Materials:
  Beginning Raw Materials Inventory 15,000
  Add: Raw Materials Purchased 77,000
  Raw Materials Available for Production 92,000
  Less: Ending Raw Materials Inventory (22,000)
  Raw Materials Used in Production 70,000

Add: Direct Labour 62,000
Add: Manufacturing Overhead:
  Depreciation Factory 48,000
  Factory Maintenance 30,000
  Supplies Factory 5,000
  Indirect Labour 69,000

Add: Beginning Work in Process Inventory 10,000
Less: Ending Work in Process Inventory (28,000)
Cost of Goods Manufactured 266,000

PJP's Manufacturing
Income Statement
for the year ended Dec 31st 2014

Sales $500,000

Less: COGS:
  Beginning Finished Goods 12,000
  Add: COGM 266,000
  Goods Available for Sale 278,000
  Less: Ending Finished Goods (50,000)
  Gross Margin 228,000

prepared by: Chewanjil Singh
Selling and Administration expenses:
Selling expenses: 75000.
Administrative expenses: 58000. (133000).
Operating Income: $ 139000.

b. Average Cost:
Direct Material: \( \frac{10000}{15000} = $4.67 \) per unit
Depreciation: \( \frac{48000}{15000} = $3.2 \) per unit.

The total cost for depreciation will still remain $48000, the reason being that straight line method has been used to depreciate the asset, which will be considered as a fixed cost.

Unit cost: \( \frac{48000}{17000} = $2.82 \) per unit.

c. Costs that would appear in inventory:
Direct Material: \( \frac{70000}{19000} \times 5000 = 18421 \)
Direct Labour: \( \frac{62000}{19000} \times 5000 = 16316 \)
M. Overhead: \( \frac{152000}{19000} \times 5000 = \frac{40000}{74731} \)

Prepared by: Chanujit Sinha.