

### COST

**Cost** It is incurred when a resource is used for some purpose

**Cost Pools** Costs that are assembled into meaningful groups. Can be classified by type of cost, source, and responsibility

**Cost Driver** Any factor that has the effect of changing the level of total cost. Reasons.

**Cost Object** Any product, service, customer, activity, or organizational unit to which costs are assigned.

### COST ASSIGNMENT

- the process of assigning (cost to cost pools) and (cost pools to cost object)

**Two types of cost assignment:**

Direct tracing (used for assigning direct costs) Allocation (used for assigning indirect costs)

**Flow of Cost Assignment:**

Resource cost → Cost driver → Cost pool → Cost driver → Cost object

### COST ALLOCATION

- The assignment of indirect costs to cost pools and cost objects through the use of cost drivers.

- Often called allocation bases

Cost object: Table

JE to record WIP goods by using raw materials:

DR WIP inventory

CR Raw material

### CLASSIFICATION BY BEHAVIOR

**Variable Cost** - the change in total cost associated with each change in quantity of a selected cost driver. It does not change with changes in volume. More like the cost of direct material.

### CLASSIFICATION BY BEHAVIOR (cont)

**Fixed Cost** - the portion of total cost that does not change with changes in quantity of the selected cost driver. It does change with changes in volume. More like indirect material.

**Mixed Cost** - used to refer to a total cost figure that includes both a fixed and variable component. Mixed of variable and fixed cost.

**Step Cost** - varies with the change in cost driver volume but does so in steps.

### DIRECT & INDIRECT COST

**Direct Cost** - easy to trace into cost pool or cost object. Example: wood for direct material.

Direct Material Cost - wood, metal, plastic  
Direct Labor Cost - wages, coffee break

**Indirect Cost** - not easy to trace into cost pool of cost object. Example: monthly rent for indirect material that is being used to the whole building of different manufactured goods

Indirect Material Cost - tools used, gloves  
Indirect Labor Cost - supervision, inspection  
Other Indirect Cost - rent expense, depreciation, insurance, utility

### COST DRIVERS

It provides two roles for the management accountant:

1. Assigning costs to cost objects
2. Explaining cost behavior – how total cost changes as the cost driver changes

**Cost behavior** – the change in the total amount of a cost associated with changes in the level of a cost driver

**Four types of cost drivers:**

- Activity-based
- Volume-based
- Structural
- Executional

### SYSTEMS

**Periodic System** - a method that the finished goods inventory account will be updated every time there is a purchase or sales transaction

**Perpetual System** - a method that involves a count of inventory at the end of each accounting period to determine ending balance

### INVENTORY ACCOUNT

Materials Inventory

WIP Inventory

Finished Goods Inventory

Note: each account has its own beginning and ending balance

Inventory formula:

Beginning inv + Cost added = Ending inv + Cost transferred out

### STRUCTURAL & EXECUTIONAL

**Structural** Facilitate strategic decision making because they involve plans and decisions that have long-term effects. Focus: long-term effects

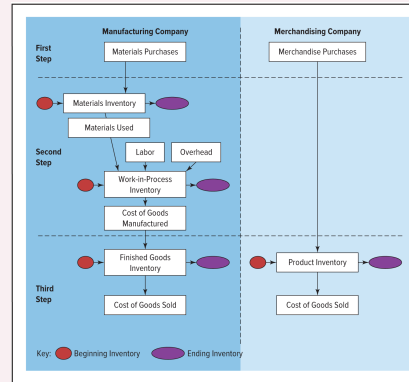
**Executional** Facilitate operational decision making by focusing on short-term effects. Focus: short-term effects



### PRODUCT & PERIOD

Product Cost	Includes only the costs necessary to complete the product. Direct material (materials used to become a physical goods) Direct labor (labor used to manufacture) Factory overhead (indirect costs for materials, labor, and facilities used to support the manufacturing process to product transportation)
Period Cost	Includes all other costs incurred by the firm in managing or selling the product. (Selling expense, general and administrative expense, salary, depreciation, building)

### Costing Steps



### COSTING

#### Manufacturing

Produce goods from raw materials to finished goods. *Step 1.* Purchase raw materials (wood, plastic, metal). *Step 2.* Involves adding 3 cost elements (materials used, labor, overhead) to the WIP inventory account. *Step 3.* The production costs in WIP inventory account will now transfer to Finished Goods inventory account (once the product is complete) then will go to the Cost of Goods Sold (when the product is sold)

#### Merchandising

Resells goods that was purchased from suppliers. *Step 1.* Purchase merchandise from supplier and place them into Merchandise Inventory account. *Step 2.* When sold, transfer it to COGS inventory account.

