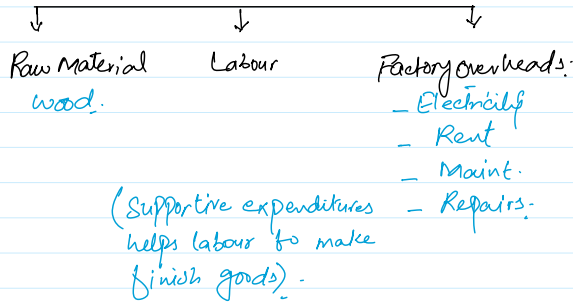
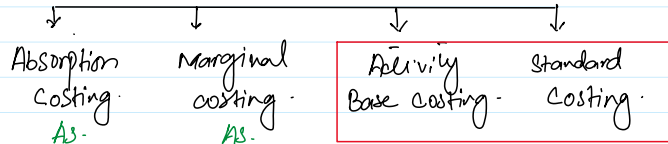


Cost Accounting → Main objective (per unit cost)

Manufacturing Sector:



Costing methods:



ABSORPTION COSTING:-

Before discussing absorption costing we must need to know about variable and fixed cost:

Prime cost = Direct material used
+
Direct Labour cost:

Conversion Cost = Direct Labour cost
+
Factory overheads:

Variable cost:

Per unit = Fixed
Total VC = Variable.

E.g.

Screen	TVC
1 \$ 100	\$ 100
2 \$ 100	\$ 200
3 \$ 100	\$ 300
4 \$ 100	\$ 400
5 \$ 100	\$ 500

Fixed Cost

Total FC = Fixed.

Per unit FC = Variable.

→ Trip → State Bank of Pakistan
Coaster = Rs. 18,000/-
1 person = 18,000
2 person = 18,000
E.g. = Rs. 18,000 / 18 Students
PU-FC = Rs. 1,000/-
1/2 = Rs. 18,000 / 36 Students
= Rs. 500/-

* Cost centres (Different departments) Production, Services.

* Allocation → \$100,000 → Production \$60,000 Services \$40,000.

* Apportionment Production (Ceiling \$20,000, Assembly \$30,000 Finish \$10,000)

* Re-Apportionment: → will be distributed in Production Departments (Services department)

Mosque = 60,000 → \$6,000 Finish dept. \$4,000 Ceiling dept.

Overhead	Cost of Apportionment
Rent and rates, heating and lighting, building depreciation, insurance, building expenses, rent	Floor area
Actual consumption	Power
Depreciation, insurance of plant and other machinery	Cost or replacement value of asset
Storekeeping costs, material handling costs	Store requisition
Welfare costs, canteen costs, administration costs, supervision	No. of employees
Machines repairs	Machine hours

→ There are different type of fixed cost/overheads:

- * Production overheads 24,000
- * Set-up overheads 36,000
- * Selling overheads: 14,000

\$74,000

→ How to distribute these overheads into different departments:

⇒ Applied Rate / Absorbed Rate / Budgeted Rate = $\frac{\text{Total Fixed overheads}}{\text{Total direct Labour hours or Total Machine hours}}$ E.g. $\frac{74,000}{740 \text{ direct labour hours}} = \$100 \text{ per direct labour hour.}$

Labour intensive departments (Assembly dept).

↓
Direct Labour hours will be used in base while calculating Applied Rate.

i.e. both dept. Labour hours have used

Machine/capital intensive department (Production department)

↓
Direct Machine hours will be used in base while calculating Applied Rate.

i.e. in both Machine hour used.

Calculating Applied Rate:

In both dept. Labour hours have used.

A 750 hours: B 800 hours:

→ In this condition highest Labour hours are going to use to calculate Applied Rate.

while calculating Applied Rate:

In both dept. Machine hour used.

A 1,000 machine hours: B 1,200 Machine hours:

1,200 Machine hours will be used to calculate Applied rate.

Difference between Applied/Budgeted → Actual overheads:

Production → Mobile → 10 Minutes
 ↳ Electricity Bill → Hotel? → Budgeted overheads (To avoid undercost.)

→ Budgeted overheads are estimated overheads E.g. Bill \$10,000/-
 → Actual overheads are final overheads E.g. \$8,000/- Bill.

\$

At time of \$, always write Budgeted overheads at first.

Budgeted overheads > Actual overheads.
 ⇒ Over absorbed.
 → Vice versa (Under absorbed)

Qty.

At time of quantity always write actual quantity at first.

Actual quantity > Budgeted quantity
 ⇒ Over absorbed.
 → Vice versa (Under absorbed)