Management Accounting

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Practical Class #6

Agenda

01

EXERCISE 15

Massa Italiana Company

02

THEORETICAL RECAP

Job vs Process Costing Systems

01

Exercise 15

The Massa Italiana Company

Exercise 15 (Sequential Allocation Method)

Maintenance → GMO = 45/580 = 7,76 %

Maintenance allocated 45 Lh to GMO out of its total Lhs of 580 Lh

GMO → Maintenance = 28/308 = 9.09%

GMO allocated 28 Lh to Maintenance out of its total Lhs of 308 Lh

Maintenance will **NOT** allocate costs to GMO.

Exercise 11 (Simultaneous Equation Allocation Method)

$$\begin{cases} FA = 100\,000 + 2000/10000 * Maintenance \\ M = 200\,000 + 10/80 * FA \end{cases} \Leftrightarrow \begin{cases} FA = 143\,589,74€ \\ M = 217\,948,72\,€ \end{cases}$$

02

Theoretical Recap

Job vs Process Costing Systems

Costing Systems

Job Costing Systems: costs are assigned to a distinct unit, batch or lot of a distinct product or service. The product or service is often **custom-made** (e.g.: a bridge) [Problem 11 Finish Co] Production only happens when you have a specific order

Process Costing System: the cost of a product or service is obtained by using broad averages to assign costs to masses of similar units. **Identical items are mass produced for general sale and not for any specific customer** (e.g.: milk bottles) [Problem 15 Massa Italiana) CONTINUOUS PRODUCTION PROCESS

Hybrid Costing System: includes features of **both** a job costing and a process costing system. Most commonly used in situations where there is identical processing of a baseline product, as well as individual modifications that are made beyond the baseline level of processing (e.g.: car production → car assembly (process costing) + different car paintings and extras, personalized to each client → (job costing)