

Management Accounting

Fall 2024
Practical class 11
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AGENDA



THEORETICAL RECAP

Period Vs Product Costs
Alternative Costing Systems
Cost Volume Profit Analysis



CHAPTER 8 and 9

Problem 29

Theoretical Class Recap (or not)

Period Vs Product Costs

.....● Manufacturing Cost



Product Cost

Unsold



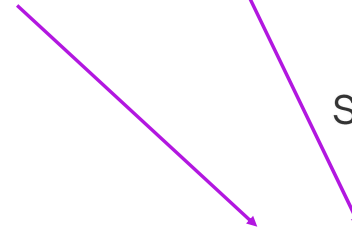
Recorded as an asset (inventory) in the balance sheet and becomes an expense in the profit and losses account when the product is sold

.....● Non-Manufacturing Cost



Period Cost

Sold

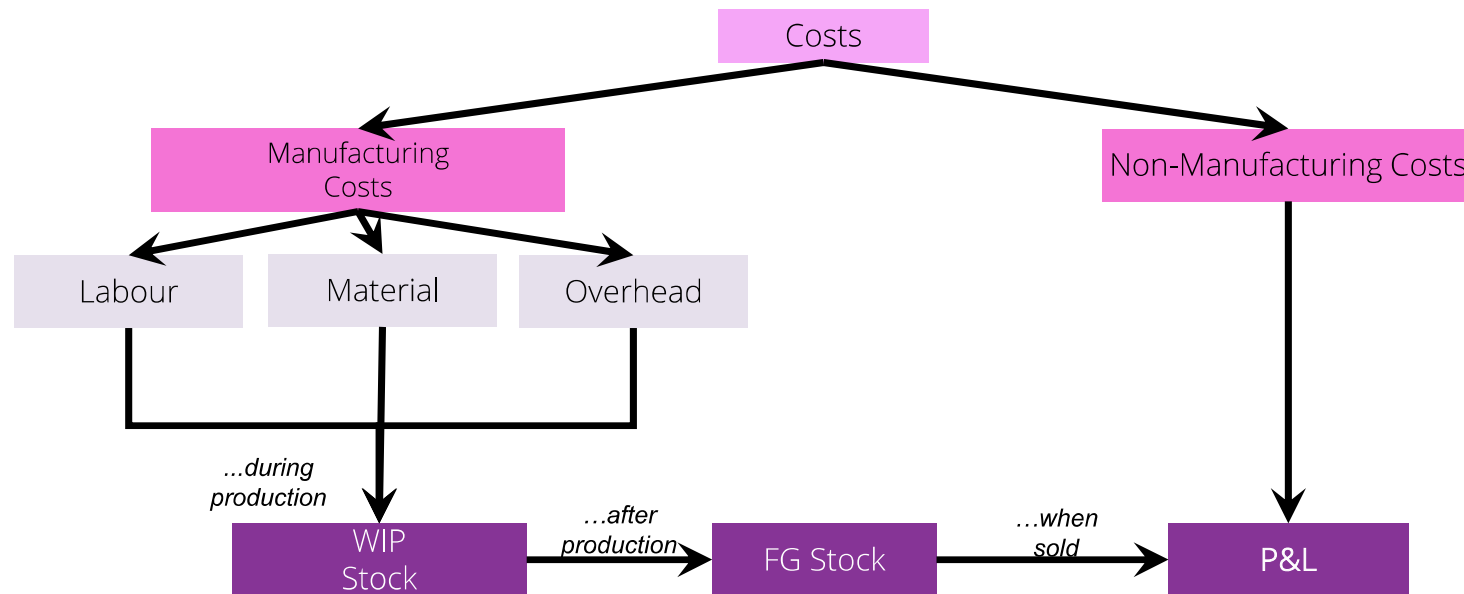


Recorded as an expense in the profit and losses account in the current accounting period

Theoretical Class Recap (or not)

Alternative Costing System

-● So far, we have (**Absorption or full costing system**):
 -● Allocate all manufacturing cost to products, and to value unsold inventories at their total cost of manufacture
 -● Non-manufacturing costs were not allocated to the products but were charged directly to the P&L and excluded from the inventory valuation (period costs)

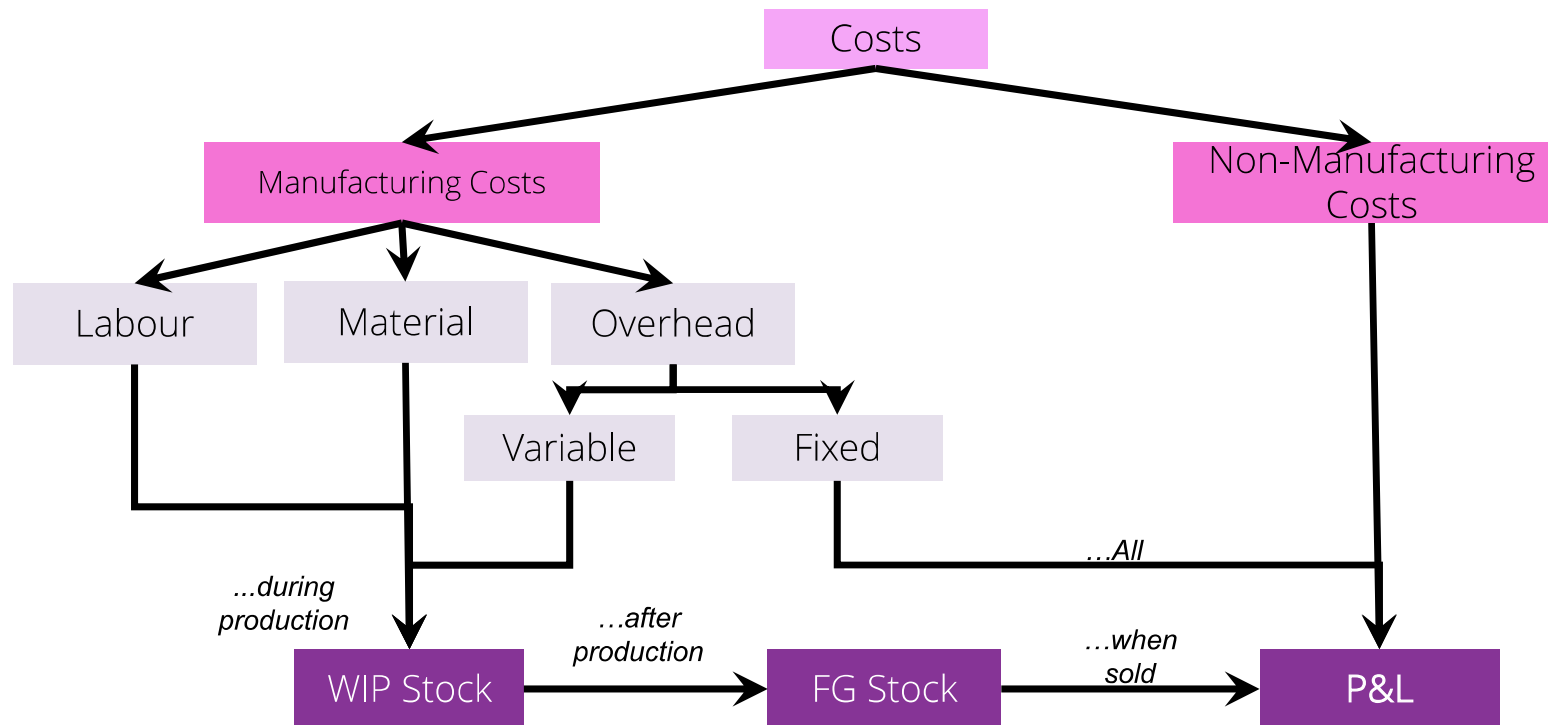


Theoretical Class Recap (or not)

Alternative Costing System

.....● Variable Costing System

-● Manufacturing costs: only the variable costs go to the product
-● Non-manufacturing costs go directly to the P&L



Theoretical Class Recap (or not)

Alternative Costing System
In between we have:

Full Costing Based on Practical Capacity

-● Assigns variable manufacturing costs plus a share of total manufacturing fixed costs to products, after taking into account **practical capacity** (The production that is likely to be produced by the machine after taking into consideration unavoidable interruptions arising from machine maintenance and plant holiday closures)

Full Costing Based on Budgeted Activity

-● Assigns variable manufacturing costs plus a share of the total manufacturing fixed costs to products, after taking into account the **budgeted activity** (the activity level [volume of production] based on the capacity utilization required for the next budget period)

Theoretical Class Recap (or not)

Alternative Costing System

Summing up

Type of System	COGM	Under-recovery of OH (UROH)
Variable Costing	$MVC \text{ u } * \text{ Real Production}$	MFC
Total Full Costing	$MVC \text{ u } * \text{ Real production} + \text{MFC}$	0
Full Costing Based on Practical Capacity	$MVC \text{ u } * \text{ Real production} + \text{MFC} * \frac{\text{Real Production}}{\text{Practical Capacity}}$	$\text{MFC} * (1 - \frac{\text{Real Production}}{\text{Practical Capacity}})$
Full Costing Based on Budgeted Activity	$MVC \text{ u } * \text{ Real production} + \text{MFC} * \frac{\text{Real Production}}{\text{Budgeted Activity}}$	$\text{MFC} * (1 - \frac{\text{Real Production}}{\text{Budgeted Activity}})$

Theoretical Class Recap (or not)

Cost Volume – Profit Analysis

P&L IN THE CM FORMAT

P&L in CM Format	
(+)	1. Sales
(-)	2. Cost of Goods Sold (COGS) under Variable Costing
(=)	3. Gross Profit
(-)	4. Non-Manufacturing Variable Costs
(=)	5. Contribution Margin
(-)	6. Manufacturing Fixed Costs
(-)	7. Non-Manufacturing Fixed Costs
(=)	8. Operating Profit

*NOTE: Contribution Margin “includes” both manufacturing and non-manufacturing costs as long as they are Variable!; All fixed costs are recognized afterwards

Key takeaways from exercise

DIFFERENCES IN Π USING ALTERNATIVE COSTING SYSTEMS

Manufacturing Fixed Costs

-● Considered as an expense in P&L (UROH + COGS)

Inventory Valuation

-● How much MFC stay in closing inventory

***NOTE:** It does not matter if we look at the total value of UROH/COGS/Inventory or only at the MFC present in there. Because we will be looking at the variation from one cost accumulation system to the other, what matters is that we stay consistent and use the same technique for both. The result will be the same because allocation of MVC is the same for every method (always goes to the COGM)

Key takeaways from exercise

DIFFERENCES IN π USING ALTERNATIVE COSTING SYSTEMS

PRODUCTION > SALES

-● We have increasing stock levels, so full costing systems produces higher profits

SALES > PRODUCTION

-● We have decreasing stock levels, and for that reason variable costing systems produces higher profits

SALES = PRODUCTION

-● Profits are the same for any costing system