Achievable

CMA PART 1 DUMP SHEET

Cost measurement and costing systems

Measurement concepts

- **Product costs:** $\text{DM} + \text{DL} + \text{manufacturing overhead}$; capitalized as inventory, expensed as COGS when sold
- **Period costs:** selling + administrative; expensed as incurred
- **Prime costs** $= \text{DM} + \text{DL}$; **conversion costs** $= \text{DL} + \text{manufacturing overhead}$
- **Cost driver:** a factor causing cost change (machine or labor hours); links cost pools to cost objects
- **Cost object:** an item needing separate measurement. **Cost pool:** a group of related indirect costs for allocation
- **Cost behavior:**
  - Fixed: constant in total within the relevant range (per unit falls as activity rises)
  - Variable: total varies, per unit constant
  - Mixed: both (split via high-low or regression)
- **Cost measurement:**
  - Actual: all actual; accurate, untimely
  - Normal: actual DM and DL, overhead at a predetermined rate
  - Standard: all at standard; enables variance analysis
- **COGS formulas:**
  - Retail: $\text{beginning inventory} + \text{purchases} - \text{ending inventory}$
  - Manufacturing: $\text{beginning FG} + \text{COGM} - \text{ending FG}$, where $\text{COGM} = \text{beginning WIP} + \text{total manufacturing costs} - \text{ending WIP}$

Absorption vs variable costing

- **Absorption (full):** all manufacturing costs, including fixed OH, in product cost; required by GAAP and IFRS
- **Variable (direct):** only variable manufacturing costs in product cost; fixed OH is a period cost
- **Key difference:** the treatment of fixed manufacturing overhead
- **Reconciling difference** $= \text{change in inventory units} \times \text{fixed OH per unit}$
- **Income effect:**
  - Production > sales → absorption income > variable (fixed OH deferred in inventory)
  - Sales > production → absorption releases prior fixed OH
  - Variable-costing income is unaffected by inventory changes

Costing systems

- **Job order costing:** custom or distinct batches; costs traced via job cost sheets. Flow: raw materials → WIP → finished goods → COGS
- **Spoilage:** normal (expected) absorbed by good units (charged to the job if job-specific, to OH if common); abnormal (avoidable) expensed immediately as a loss
- **Process costing:** homogeneous, continuous production; costs averaged over units through department WIPs
- **Equivalent units:** partially completed units expressed as full-unit equivalents; computed separately for direct materials and conversion costs; the calculation differs under weighted-average and FIFO
- **Joint costing** (allocate at split-off): physical measure; sales value at split-off; NRV (= final sales value − separable costs); constant gross-margin %
- **By-products** (minor value): record as other income, or offset their NRV against joint costs. **Separable costs** are incurred after split-off
- **Life-cycle costing:** captures upstream (R&D, design) + manufacturing + downstream (marketing, warranty, disposal) costs; early design locks in the majority of total lifetime cost