

MGT 402-COST AND MANAGEMENT ACCOUNTING

SOLUTION OF ASSIGNMENT SPRING 2010

TOTAL MARKS: 20

(A)

**China Toys Manufacturing Company
Cost of goods sold statement
For the year ended on Dec 31, 2009.**

(8 Marks)

<u>Direct material</u>	Rs.	Rs.
Material inventory Jan 1, 2009.		8000
Purchases		90000
Material available for use		98000
Less: Material inventory Dec 31, 2009.		<u>43000</u>
Direct material consumed.		55000
Add: Direct labor		35000
Add: Factory overhead		<u>15000</u>
Total Current Manufacturing cost		105000
Add: work in process inventory Jan 1, 2009.		<u>70000</u>
Cost of goods to be manufactured		175000
Less: work in process inventory Dec 31, 2009.		<u>25000</u>
Cost of goods manufactured		150000
Add: Finished goods inventory Jan 1, 2009.		50000
Cost of goods to be sold		<u>200000</u>
Less: Finished goods inventory Dec 31, 2009.		<u>48800</u>
Cost of goods sold		151200

(B)

(7 Marks)

Working

Cost of goods sold

Sales	=	218800
Less: Sales return	=	2800
Net Sales	=	216000

Gross profit is 30% of net sales

$$\text{Cost of goods sold} = \text{sales} - \text{gross profit} = 100 - 30 = 70\%$$

$$\begin{aligned}\text{Cost of goods sold} &= 216000 * 70\% \\ &= \mathbf{151200 \text{ Rs.}}\end{aligned}$$

Prime Cost

Prime cost is 60% of cost of goods manufactured

$$\begin{aligned}\text{Prime cost} &= 150000 * 60\% \\ &= \mathbf{90000 \text{ Rs.}}\end{aligned}$$

Direct material consumed

$$\begin{aligned}\text{Prime cost} &= \text{Direct labor} + \text{Direct material consumed} \\ 90000 &= 35000 + \text{direct material consumed} \\ \text{Direct material consumed} &= 90000 - 35000 \\ &= \mathbf{55000 \text{ Rs.}}\end{aligned}$$

Factory overhead

Factory overhead is 30% of conversion cost

$$\begin{aligned}\text{Conversion cost} &= \text{Direct labor} + \text{FOH} \\ 100 &= \text{Direct labor} + 30\end{aligned}$$

$$\begin{aligned}
 \text{Direct labor} &= 100 - 30 \\
 &= 70\% \text{ of conversion cost} \\
 \text{Total conversion cost} &= \text{Direct labor} / \text{Direct labor ratio} \\
 &= 35000 / 70\% \\
 &= \mathbf{50000} \\
 \text{Factory overhead} &= \text{Conversion cost} - \text{Direct labor} \\
 &= 50000 - 35000 \\
 &= \mathbf{15000 \text{ Rs.}}
 \end{aligned}$$

(5 Marks)

(c)

China Toys Manufacturing Company
Income Statement
For the year ended on Dec 31, 2009

	Rs.	Rs.
Sales	218800	
Less: Sales Return	<u>2800</u>	
Net sales		216000
Less: Cost of goods sold		<u>151200</u>
Gross Profit		64800
<u>Less: Operating expenses</u>		
Administrative Expenses	17280	
Selling Expenses	<u>10800</u>	<u>28080</u>
Income from operation		36720
Financial expenses		<u>600</u>
Net Income		36120

Working

Administrative expenses

$$\begin{aligned}
 8\% \text{ of net sales} &= 216000 * 8\% \\
 &= 17280 \text{ Rs.}
 \end{aligned}$$

Selling expenses

$$\begin{aligned}
 5\% \text{ of net sales} &= 216000 * 5\% \\
 &= 10800 \text{ Rs.}
 \end{aligned}$$