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DEPARTMENT: BANKING AND FINANCE

COURSE: COST AND MANAGEMENT ACCOUNTING

COURSE CODE: BFN 208

MATRIC NUMBER: 18/SMS05/010

ASSIGNMENT SOLUTIONS

1.a. A costing estimate must show clearly all the elements of cost involved, material, labor and overheads, distinguishing between those costs which are fixed and those which are variable. Marginal technique, showing contributions to fixed costs are most useful.

If on the other hand, the factory is working at full capacity, extra costs may be incurred by undertaking additional work, overtime, extra labor or additional machinery. This must be reflected in the estimates. Material cot should be entered at current market price. Material in stock may have cost more or less than this, but any resultant profit or loss is the result of good or bad buying and should not be reflected in the estimate.

2.a. Advantages of cost accounting

I. Cost Object Analysis: Revenues and expenses can be clustered by cost object such as by product, product line, and distribution channel, to determine which ones are profitable or require further support.

II. Discover Causes: An effective cost accountant not only locates problems within a company, but also drills down through the data to determine the exact cause of the issue, and also recommends solutions to the management.

III. Inventory Valuation: The cost accountant is usually tasked with accumulating the cost of the inventory, as well as allocating factory overhead to inventory.

IV. Budget Compliance: Actual cost incurred can be compared to budgeted or standard costs, to see if any part of the business is spending more than expected.

V. Acquisitions: The cost structures of possible acquisition candidates can be examined to see if costs can be pruned in some areas, thereby justifying the cost of the acquisition.

4.a. Calculate Reorder Level

Formulae= Maximum consumption \* Maximum reorder period

100units \* 7 weeks

= 700 units

b. Minimum Stock Level

formulae= Reorder level – (Normal consumption \* Normal reorder level)

RL-(NP\*NRP)

700-(60\*5) = 400 units

c. Maximum Stock level

formulae= Reorder level – (Minimum consumption \* Minimum reorder period) + RQ

700 – (20 units \* 3 weeks) + 400

= 1,040 units

d. Average Stock level

formulae= Maximum stock level + Minimum stock level

2

= 1,040 + 400 /2

= 720 units