EZEKIEL DESTINY UDEFIEN

18/SMS05/004

BFN 208

COST ACCOUNTING

1. Cost estimate is the approximation of the cost of a product. Cost estimation takes into consideration all expenditure involved in the design and manufacturing along with all related service facilities such as tools used in making a well portion of sales marketing and administrative expenses called overhead costs.

A good cost estimate must clearly differentiate between fixed and variable costs, direct and indirect costs. While planning a cost estimate for a manufacturing company, one must consider the following;-

The cost of design

The cost of research and development

Cost of drafting

Cost of material required

Labor cost

Cost of fixtures and tools

Overhead cost or indirect cost.

2. Because;-

1. It helps the firm to maintain inventory at the most optimum level in terms of investments as well as variety of the stock.
2. It helps to check results of the financial accounting with the help of periodic reconciliation of cost accounts with financial accounts
3. It helps in cost reduction
4. By disclosing actual cost of production, cost accounting system provides the firms with a reliable basis for fixing selling prices of his products
5. Firms see cost accounting system as an advantage because it serves as a means of controlling costs
6. The various cost records maintained under the cost accounting system provides valuable information for the purpose of failure planning and for decision-making.

3.

1. The organization structure and degree of decentralization
2. The nature of raw materials and labor used in the process
3. An efficient material control and wage system
4. The costing system should meet the requirements of the management and its information needs
5. To make good in the system defaults, the cost system should be simple to understand and easy to operate
6. To make the cost system gain control of costs, all levels of staff and managers in the organization should be properly trained and made familiar with the costing procedures.

**4.** Normal usage per wk 60 units

 Minimum usage per wk 20 units

 Maximum usage per wk 100 units

 Reordered period 3-7 wks

 Reordered quantity per wk 400 units

1. Reorder level

$$Max usage×Max reordered period$$

= 100 units×7 wks =700units

1. Minimum stock level

$$Reorder level-\left(Normal usage×Normal Reorder level\right)$$

$$=RL-\left(NC×NRP\right)$$

 $=700-\left(60units×5wks\right)=400units$

1. Maximum stock level

$$RL-\left(minimum usage×minimum reorder period\right)+reordered quantity$$

$$=RL-\left(Min C×Min RP\right)+RP$$

$$=700- \left(20units×3wks\right)+400units$$

$$=700-\left(60\right)+400=1040units$$

d. Average Stock Level
$$\frac{Maximum stock level + minimum stock level}{ 2} = \frac{1040+400}{ 2}$$

$$\frac{1440}{2}=720units$$