



Al Farabi University



- An Introduction to Cost Terms and Purposes
- Management Department
- “Cost Management” Course
- Dr., professor Adambekova A.A.

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lecture questions

- Cost classification
- The type of cost
- Cost in financial statements

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Cost classification

- Cost classification – this is the systematization and grouping of costs by characteristics
- The main goal of any cost classification is to satisfy the information needs of external and internal users
- Who are these users?

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By economic elements

Material costs

Depreciation
(Amortization)

Mandatory
Contributions

Labor costs

Others

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According to calculation items

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Raw materials

Purchased products
and semi-finished
products

Fuel and energy

Salary of main
workers

Mandatory
Contributions

General production
expenses

General operating
expenses

Losses from
defective products

Other production
costs



Types of production (full) costs (Cost of Goods Manufactured)

Technological (bread production)

- Accounting for only direct costs (flour, eggs, butter, water, salt, sugar, yeast)

Divisions (management, building rental, heating, lighting, electricity for the furnace)

- Accounting for direct and divisions costs

Production (plus costs for cleaning the bakery premises and checking product quality)

- Accounting for direct, divisions, general and other production expenses

Commercial (full)

- Accounting for direct, shop, divisions and other production and selling costs

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Let's remember: Multiple-Step Income Statement

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STEP 4

PANEL A: INCOME STATEMENT

Cellular Products Income Statement

For the Year Ended December 31, 2011 (in thousands)

Revenues		\$210,000	
Costs of goods sold:			
Beginning finished goods inventory, January 1, 2011	\$22,000		
Costs of goods available for sale	\$104,000		
Costs of goods manufactured (see Panel B)	\$126,000		
Ending finished goods inventory, December 31, 2011	\$18,000		
Cost of goods sold		\$108,000	
Gross margin (or gross profit)		\$102,000	
Operating costs			
R&D, design, mktg., dist., & cust.-service cost	\$70,000		
Total operating costs		\$70,000	
Operating income		\$32,000	



Let's remember: Cost of Goods Manufacture

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STEP 1

STEP 2

STEP 3

PANEL B: COST OF GOODS MANUFACTURED			
Cellular Products			
Schedule of Cost of Goods Manufactured*			
For the Year Ended December 31, 2011 (in Thousands)			
Direct materials:			
Beginning inventory, January 1, 2011	\$11,000		
Purchases of direct materials	\$73,000		
Cost of direct materials available for use	\$84,000		
Ending inventory, December 31, 2011	\$8,000		
Direct materials used		\$76,000	
Direct manufacturing labor		\$9,000	
Manufacturing overhead costs:			
Indirect manufacturing labor	\$7,000		
Supplies	\$2,000		
Heat, light, and power	\$5,000		
Depreciation-plant building	\$2,000		
Depreciation-plant equipment	\$3,000		
Miscellaneous	\$1,000		
Total manufacturing overhead costs		\$20,000	
Manufacturing cost incurred during 2011		\$105,000	
Beginning work-in-progress inventory, January 1, 2011		\$6,000	
Total manufacturing costs to account for		\$111,000	
Ending work-in-progress inventory, December 31, 2011		\$7,000	
Cost of goods manufactured (to income Statement)		\$104,000	

* Note that this schedule can become a Schedule of Cost of Goods Manufactured and Sold simply by including the beginning and ending finished goods inventory figures in the supporting schedule rather than in the body of the income statement.



Depending on production volumes

Variables

Fixed

Raw materials

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Salary of
main
workers

Conditionally-
fixed and
conditionally-
variable

salary of administrative
and management
personnel

general
operating
expenses





Depending on production volumes

- Variable costs change in proportion to changes in the volume of production or sales of products, and those calculated per unit of production represent a constant value.

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- Fixed costs in total do not change when the level of business activity (volume of production or sales of products) changes within certain limits, and those calculated per unit decrease as the volume of production or sales increases.



According to the method of inclusion in the cost price

direct

indirect

Raw materials

Salary of main workers

salary of administrative and management personnel

general operating expenses

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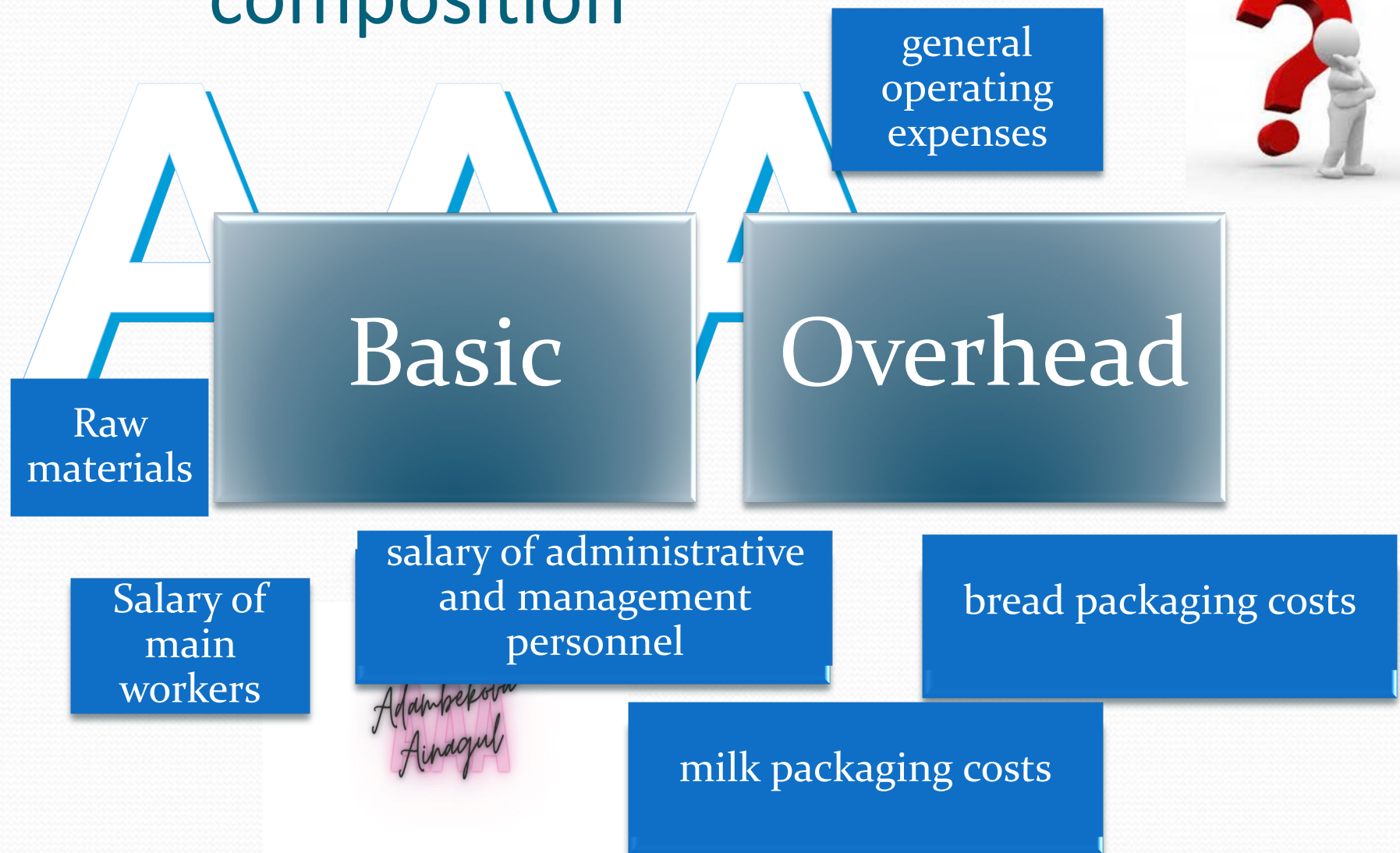
According to the method of inclusion in the cost price

- Direct costs can be accurately and economically assigned to an accounting item (product, service, department).
- Such costs are included in the cost of the finished product in full, based on the physical volume of the resource expended.
- Indirect costs cannot be attributed in a certain way to an accounting object (product, service, division).
- The total amount of such costs is subject to distribution among several accounting objects.

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According to economic composition





According to economic composition

- Basic costs are the costs that directly form the finished product: raw materials, materials, semi-finished products, wages of main workers.
- Overhead costs are costs associated with servicing the production process. These are mainly general production costs.

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Different between indirect and overhead costs

- Indirect costs are allocated according to the method of attribution to cost, and overhead - in relation to the production process of specific types of products. Indirect costs are about how we include them in the cost price.
- For example, a seamstress receives \$1000 per month, sews 10 dresses, which means we include the full salary costs in the cost price, dividing them by 10 dresses, that is, \$100 per dress. In other words, about production, these are the basic expenses, because without a seamstress there will be no dress.
- .



Different between indirect and overhead costs

- For example, the costs of operating and repairing equipment are the basic expenses (not overhead) and at the same time these are indirect costs, because we cannot include them in the production cost directly. Perhaps we replaced one part in the sewing machine, or replaced several spare parts in the ironing machine.
- Let us remember that indirect and overhead costs are different classifications, as the difference between the fact that we are students - from the point of view of production - in the educational process we gain knowledge, from the point of view of business relations - we students are payers for these services.



Depending on participation in the production process



production

non-
production

Raw
materials

salary of administrative
and management
personnel

bread packaging costs

general
operating
expenses

Salary of
main
workers

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milk packaging costs





Depending on participation in the production process

Production costs arise during the production process and form the production cost of products, including:

- direct material,
- direct labor costs,
- overhead production costs.

Non-production costs not directly related to the production of products are not taken into account when determining the cost per unit of production, including:

- commercial,
- managerial.



According to frequency

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One-time
(Periodic)

Raw
materials

Salary of
main
workers

salary of administrative
and management
personnel

Current

general
operating
expenses

bread packaging costs

milk packaging costs



According to frequency

- Current expenses are expenses incurred constantly, at least once a month. It is not the terms of payment that are considered, but the terms of write-off to cost.
- One-time costs (or periodic) - costs incurred less than once a month. These costs are included in the cost of production of each period in the amounts provided for by the plan. The Balance Sheet uses the “deferred expenses” account for accounting.

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According to frequency

Relevant

Irrelevant

Raw materials

Salary of main workers

salary of administrative and management personnel

general operating expenses

bread packaging costs

milk packaging costs



According to degree of significance

- Relevant costs and revenues (significant) are future costs and revenues that change as a result of a decision; they are analyzed when making a management decision.
- Irrelevant costs and revenues (insignificant) are future costs and revenues that are not affected by the decision being made. To classify costs as relevant, two conditions must be met: firstly, the costs must relate to a future period, secondly, they must differ in alternative solutions.

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