

Chapter 1 Takeaway

These are the key points you should know for Chapter 1

1. Managerial accounting is designed for decision making within the company. Managerial accounting uses more projections and estimates than seen in financial accounting. The focus is within the company and is often applied to specific jobs, process, products or departments.

2. Manufacturing Costs include:

- Direct Materials -- materials can be directly traced to a product or job
- Direct Labor -- labor can be directly traced to a product or job
- Overhead -- materials, labor, or other costs related to a product or job BUT cannot be directly traced to a specific product or job (*hint: look for keywords like Indirect, Factory, or Manufacturing within the costs*)

3. Prime Costs are all DIRECT manufacturing costs and include direct material and direct labor.

4. Conversion Costs are defined as any cost used to convert a raw material to a finished good and include direct labor and overhead

NOTE: Direct labor is considered BOTH a prime and a conversion cost

5. Direct Materials Used can be calculated using Raw Materials Inventory:

$$\begin{aligned} & \text{Beg. Raw Materials Inventory} \\ & + \text{Raw Material Purchases} \\ & - \text{End. Raw Materials Inventory} \\ & = \text{Raw Materials Used} \\ & - \text{Indirect Materials (typically given in problems)} \\ & = \text{DIRECT MATERIALS USED} \end{aligned}$$

6. Cost of Goods Manufactured is the cost of jobs, processes, or products that are finished. We need to transfer this cost to finished goods inventory and OUT of work in process inventory. We will use Direct Materials USED in this calculation which is different from material purchases (see above formula for getting direct materials used) .

Cost of Goods Manufactured is calculated as:

Direct Materials Used

+ Direct Labor
+ Overhead Applied
= *Total Manufacturing Costs*
+ Beg. Work in Process Inventory
- End. Work in Process Inventory
= COST OF GOODS MANUFACTURED

7. Cost of Goods Sold represents the TOTAL COST of a finished product, job, or process and is recorded as an expense ONLY when it is sold. Cost of goods sold is calculated as:

Beg. Finished Goods Inventory
+ Cost of Goods Manufactured
- End. Finished Goods Inventory
= COST OF GOODS SOLD

8. Gross Profit (or Gross Margin) is calculated as Sales - Cost of Goods Sold and does not include any selling, general or administrative costs. Net Income includes ALL expenses and is calculated as Sales - cost of goods sold, selling, general and administrative costs.