TOPIC: PRODUCT AND PERIOD COSTS

◆ Costs can either be recognized when they are ____________ or when the good is ______.

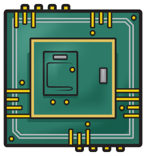
Matching Principle: Costs incurred to generate a particular revenue should be recognized as expenses in the same period the revenue is recognized.

Period Costs

- Not involved in making or acquiring a good.
- Ex: ______________________
- Recognized when the cost is __________.

Product Costs

- Involved in making or acquiring a good.
- Ex: __________________
- Recognized when the good is _______.



EXAMPLE

The below table lists costs incurred by Bryan Clothing, along with the period in which these costs were incurred. Assume that all the product costs included on the table were incurred to produce a single product, which is sold at the end of **Period 2**. Identify the period in which each cost is recognized.

	Period 1: Goods Produced	**Period 2:** Goods Sold
Costs Incurred	A. Raw materials purchased. B. Accounting services purchased.	C. Direct labor purchased. D. Advertising purchased.
Costs Recognized		

TOPIC: PRODUCT AND PERIOD COSTS

PRACTICE

An accountant tells their colleague that a delivery driver's salary is a product cost, because customers wouldn't be able to get the product without the delivery driver. This accountant is:

a) Correct, all costs associated with getting the product to a customer are product costs.
b) Correct, all costs that a business pays are indirectly related to producing products, so they are all product costs.
c) Incorrect, the delivery driver is an indirect cost, so it does not qualify as a product cost.
d) Incorrect, the delivery driver does not produce or acquire new products for sale, so their salary is a period cost.

PRACTICE

Which of the following is a period cost for a firm that produces laptop computers?

a) RAM memory.
b) Workers who assemble laptops.
c) The accounting department.
d) A repairman at the laptop factory.

TOPIC: PRODUCT AND PERIOD COSTS

The Manufacturing Production Process

- Inventory accounts are used to track **product costs** that have been incurred but have not yet been recognized.

Raw Materials (RM)		Work in Process (WIP)		Finished Goods (FG)		Cost of Goods Sold (COGS)
Materials a company owns *but has not used*.	→	Product currently being made *but not finished*.	→	Goods that are completely finished *but not sold*.	→	The cost of products that have been sold.

- **Product costs** attach to products and are recognized when the product is sold.

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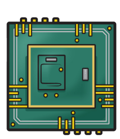
MANUFACTURING

BALANCE SHEET

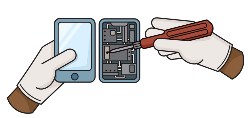
Raw Materials Inventory



Direct Materials

→

Work in Process (WIP)



Overhead Costs

Direct Labor

→

Finished Goods (FG)

→

INCOME STATEMENT

Cost of Goods Sold (COGS)

Selling & Administrative Expenses

Period Costs

TOPIC: PRODUCT AND PERIOD COSTS

EXAMPLE

The value of Bryan Clothing's inventories at the end of July are summarized below. Calculate the total value in each of the following inventory accounts: Raw Materials Inventory, Work in Process Inventory, and Finished Goods Inventory.

Bryan Clothing	
July Inventories	
Wool Yarn	$150,000
Partially completed Scarves	$20,000
Unsold Scarves	$30,000
Steel Knitting Needles	$20,000
Unsold Sweaters	$120,000
Partially completed Sweaters	$200,000

PRACTICE

Which of the following items would be recorded as part of a clock company's Work in Process Inventory?

a) A completed grandfather clock.

b) A partially finished alarm clock.

c) A wooden bird for a coocoo clock made by another company.

d) A timing screw for an antique clock.

PRACTICE

A company files for bankruptcy, and as part of the process they are required to report on the value of unsold products that are completely produced. The company could find this amount as the value of their ____________ inventory.

a) Cost of Goods Sold.

b) Finished Goods.

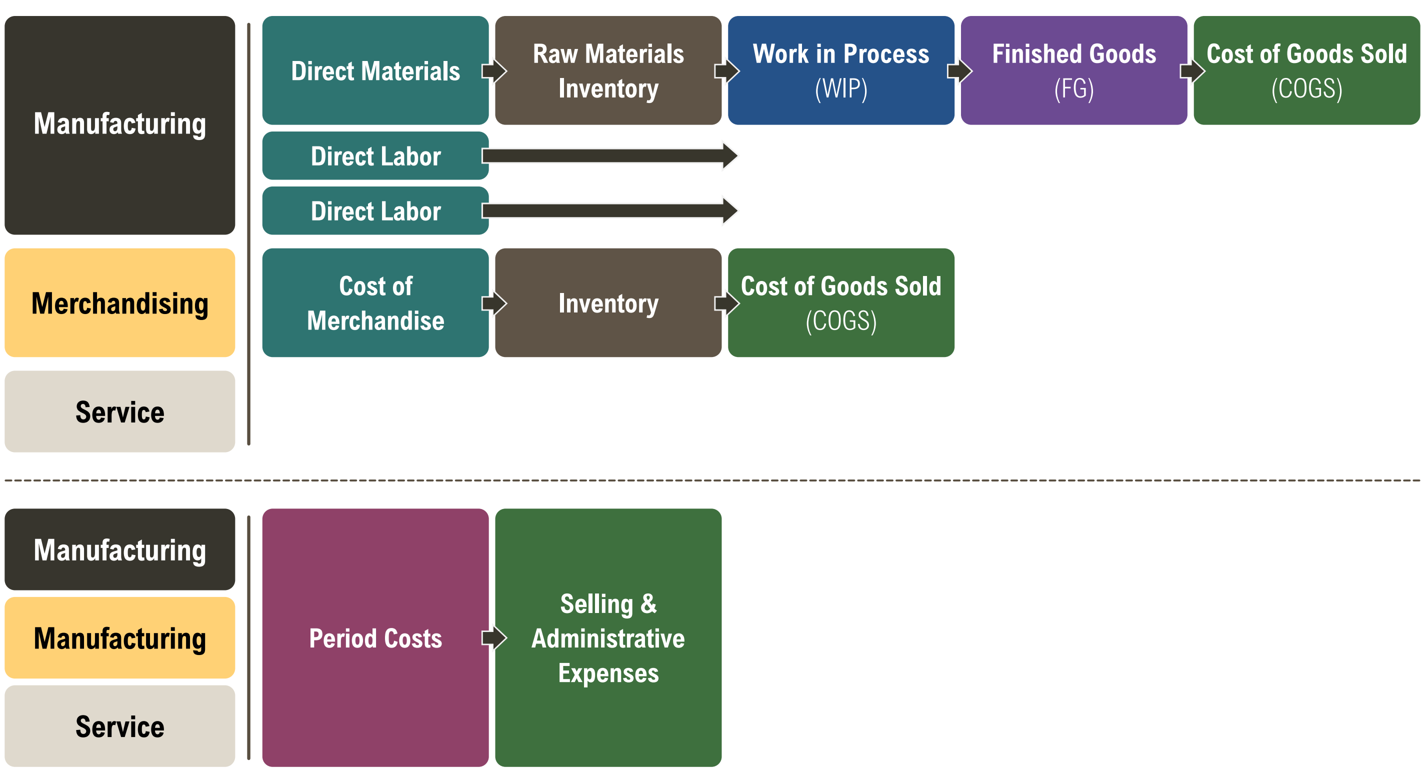
c) Work in Process.

d) Raw Materials.

TOPIC: PRODUCT AND PERIOD COSTS

Manufacturing, Merchandising, and Service Costs

	Manufacturing	Merchandising	Service
Definition	Turn raw materials into new products	Resell products they buy from manufacturers.	Sell intangible services
Examples			
Inventories	Raw Materials Work in Process Finished Goods	Inventory	No Inventories
Product Costs	Cost of Goods Sold (COGS)	Cost of Goods Sold (COGS)	None



TOPIC: PRODUCT AND PERIOD COSTS

PRACTICE

Suppose that a company provides tax preparation to businesses. Which of the following would be a product cost for this business?

a) The wage of tax preparers.
b) The cost of tax preparation software.
c) The cost of ink used to print forms.
d) None of the above.

PRACTICE

A firm that buys ice cream from a local dairy and combines it with fresh baked cookies to make ice cream sandwiches is which type of business?

a) Manufacturing.
b) Merchandising.
c) Service.
d) Hybrid.