



Cost Accumulation: in the kitchen!

Duncan Williamson
November 2005

[Why this Presentation?]

- We recently put together a page in which we said that we can learn a huge amount about accounting by considering what happens in a kitchen.
- Have a read to see what we said:

www.duncanwil.co.uk/kitchen.html

[A Three State Process]

- The explanation that follows simulates a three stage process such as
 - preparing food for a dinner party
 - manufacturing paper
 - processing dairy products

[What's Happening]

- All that cost accumulation tries to do is to record how the cost of a product or service increases as it is made or provided
- All we do is to add together as they are incurred
 - all direct costs
 - all indirect costs

[In the Kitchen!]

- Imagine the dinner party as a three stage process
 - buy the ingredients or take them from the cupboard, fridge, freezer
 - prepare the ingredients: wash, peel, cut
 - cook the stuff!

Cost Accumulation in a Three Stage Process

Buy/Take from Stock	
Direct Materials	35
Direct Labour	10
Indirect Materials	2
Indirect Labour	0
Indirect Expenses	3
Total to Preparation	50

why not try to identify what would be under each of these headings?

- what are the direct materials
- and direct labour
- and the indirect costs?

Cost Accumulation in a Three Stage Process

Buy/Take from Stock	
Direct Materials	35
Direct Labour	10
Indirect Materials	2
Indirect Labour	0
Indirect Expenses	3
Total to Preparation	50

Preparation	
From Buying	50
Direct Labour	5
Indirect Materials	0
Indirect Labour	0
Indirect Expenses	1
Total to Cooking	56

For preparation now ...
what are the costs?

Cost Accumulation in a Three Stage Process

Buy/Take from Stock	
Direct Materials	35
Direct Labour	10
Indirect Materials	2
Indirect Labour	0
Indirect Expenses	3
Total Preparation	50

Preparation	
From Buying	50
Direct Labour	5
Indirect Materials	0
Indirect Labour	0
Indirect Expenses	1
Total to Cooking	56

and for cooking ...
what are the costs?

Cooking	
From Preparation	56
Direct Materials	5
Direct Labour	12
Indirect Labour	0
Indirect Expenses	3
Ready to Party!	76

Finale!

- That's it! Of course we've simplified the process but you get the idea now ... we assumed that you know how to shop, peel and cook!

www.duncanwil.co.uk

duncan@duncanwil.co.uk

- It would help you a lot to see our sister presentation on model building at

www.duncanwil.co.uk/pdfs/costmodel.pdf