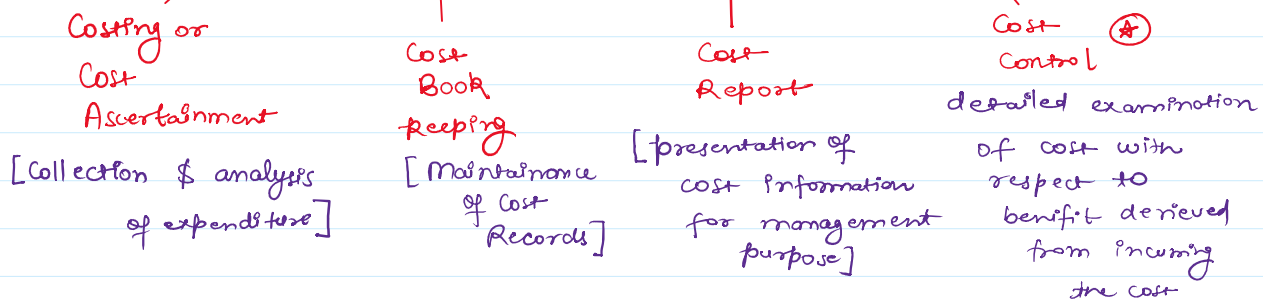


Important Terms of Cost Accounting

1. Cost :- Expenditure attributable to a given product or service
2. Costing :- Technique & process of ascertaining cost
3. Cost Accounting :- To gather information & present it to management
4. Cost Accountancy :- Academic discipline / subject which provide guidelines for cost accounting.



Scope / Element / Component of Cost Accounting



Cost Control (ex).



~~₹ 5~~
~~₹ 10~~



₹ 5

History of Cost Accounting

- Cost Accounting grew during World War I & II
- Cost Accounting Profession in India

	<u>ICWAI</u>	<u>Cost Audit</u>
	1959	1968
- Before Independence Cost Accountants → CIMA, London
- Act applicable → The Cost & Works Accountant of India Act, 1959
- Headquarter →

	<u>Previous</u>	<u>Current</u>
	Kolkata	New Delhi

Objectives of Cost Accounting / Significance

- per unit cost determination
- Ascertainment of profitability of each product
- Guides future production policies
- Helps in identifying waste & increasing profit
- Maintenance & Improvement in efficiency
- To determine taxes & excise duty



MCA

Which of the following is not an objective of Cost Accounting

- a) determine p.u cost
- b) determine per product profitability
- c) neither a or b
- d) determine overall business pattern

Methods of Costing



Printing
Job Costing



Sugar
Process Costing



Bridge
Contract Costing





Toys
Batch Costing



Bicycle
Multiple Costing



Hospital
Service Costing
or
operating Costing

1. Indigo Airlines - Service Costing
2. Aircraft Industry - Multiple Costing
3. Pharmaceutical - Process Costing
4. Mobile Industry - Batch Costing

pg-288 of Book

Sr. No.	Name of industry	
1.	Sugar industry	- process
2.	Toy making	- Batch
3.	Steel or cement	- process
4.	Bicycle manufacturing	- multiple
5.	Steel or cement	- process
6.	Aircraft manufacturing	- multiple
7.	Printing	- job
8.	Hospital	- service
9.	Pharmaceuticals	- process
10.	✓ Breweries	- Single unit / output method
11.	Canteen	- Service
12.	House building	- Contract
13.	Road transport	- Service
14.	Readymade garments	- Batch
15.	Soft drinks	- process
16.	Coal	- Single unit / output
17.	Oil refining	- process
18.	Brick kiln	- Single unit / output
19.	Interior decoration	- job
20.	College	- service
21.	Advertising	- job
22.	Soap industry	- process
23.	Electricity supply	- service
24.	Foundries	- job costing
25.	video/audio manufacturing	- Multiple Costing
26.	Sub-assembling	- Service

1. Job Costing :- Compute cost of a job [short Duration]
 production is done on order basis
 ex. - Interior decoration, printing etc.

production is done on order basis
eg:- Interior decoration, printing etc.

2. Batch Costing :- Where production is done in batches due to variety of products manufactured
eg:- Readymade garments, toys, TV etc.
3. Process Costing :- Where several processes are required to produce output, eg:- sugar, oil & chemical industry etc.
4. Operating | Service Costing :- It is used in service sector
eg:- Transportation, Hospital & Restaurant etc.
5. Contract Costing :- It is similar to job costing, the only difference is of duration as it is of long duration
eg:- Construction projects
6. Multiple Costing :- When more than one method of costing are used — eg:- Bicycle, Aircraft etc.

Methods of Cost Accounting | Cost Accounting System

1. Historical Costing - Cost ascertained after they have been incurred & then presented to management
2. Standard Costing - When cost is determined in advance & reported to management
3. Uniform Costing - When same cost principles are followed by different firms of same industry
4. Direct Costing - Only direct cost are added or charged to product / service
5. Absorption Costing - All fixed & variable cost are added to the cost of product or service
6. Marginal Costing - When fixed & variable cost are taken into consideration but we differentiate b/w them to get marginal cost

consideration but we differentiate b/w them to get marginal cost

Fixed Cost - The cost which do not change with respect to level of production
eg:- Rent, Salary p.m, pa etc.

Variable Cost - The cost which changes with respect to level of production in proportionate manner
eg:- material cost, direct labour (hourly basis) etc

Imp. Note

	per unit	In total
FC:-	changes	same/ fixed
VC:-	fixed	changes

Semi Variable Cost - The cost which includes both variable & fixed component, also known as step cost



eg:- electricity bill, internet bill

Difference between Cost Accounting & Financial Accounting

Basis	Cost Accounting	Financial Accounting
1. purpose	• To provide information to management	• To provide information to intended user
2. Applicable Act	• As per management requirement	• As per Companies Act, Income tax Act etc.
3. Recording	• On the basis of cost	• On the basis of expenses
4. Control	• Management focus on cost control	• Not much focus on control
5. Reporting	• when management requires	• usually at year end
6. Profit	• for each product / service	• for entire business
7. Cost	• for each product / service	• Reported in aggregate

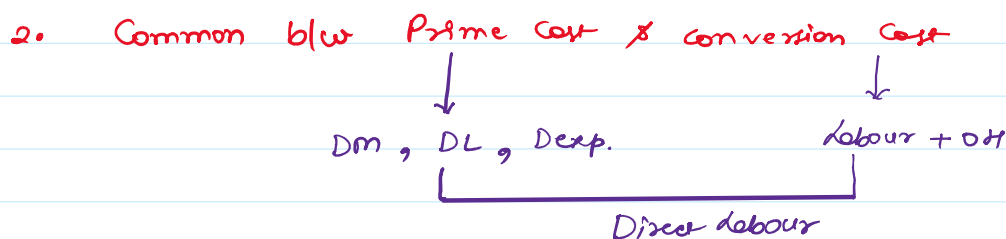
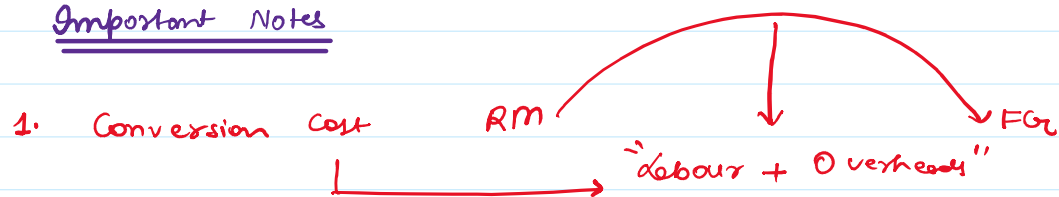
Similarities B/w Cost Accounting & Financial Accounting

- Double entry system
- disclose profit / loss
- help management in decision making
- Record transaction on the basis of invoices, vouchers etc.

Major Applications of Cost Accounting in Facilitating Business Decisions

- A) Classification & Sub division of Cost :- Cost are collected & classified by various ways in order to provide information to management for control purpose.
- B) Control of material, labour & Overheads
- C) Business Policy - Cost accounting helps management to take decisions & formulate policies
- D) Budgeting
- E) Standards for measuring efficiency - CAS → 24
- F) Best Use of limited Resources
- G) Price Determination
- H) Helps management to fix selling price

Important Notes



3. Normal loss Vs Abnormal loss

Abnormal loss - which is due to our fault should not be passed on the customer, should be written off through P&L acc

Normal loss - Increase cost of good units because there is no fault of us & this loss is unavoidable

4. **Cost Reduction** - It is a long term phenomena, which challenge standards without compromising the quality, It is permanent reduction in cost.

Definition

1. Cost - Amount of expenditure incurred on product or service or activity, etc.

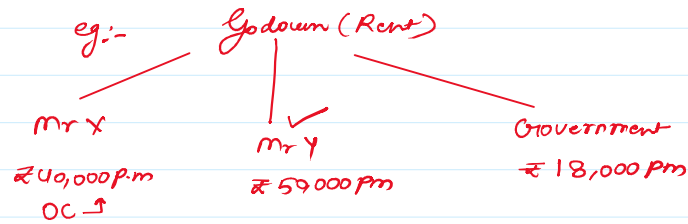
2. Out of Pocket Cost - Cost involving cash payment / bank payment

3. Opportunity Cost

or

Economic Cost

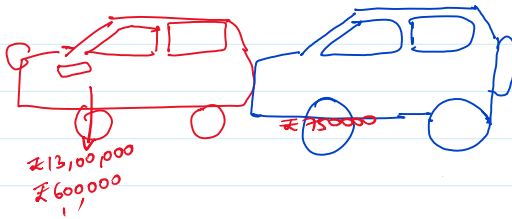
- Value of next best alternative not chosen



4. Sunk Cost - Cost that have been incurred & cannot be recovered

5. Imputed Cost - Notional cost used for decision making purpose
eg:- Interest on own funds

6. Relevant Cost - Cost related to a specific decision - future cost.



7. Avoidable Cost - Cost that should not have been incurred - eg:- burger, pizza, fries etc.

8. Unavoidable Cost - Cost that are necessary to be incurred - eg:- Raw material

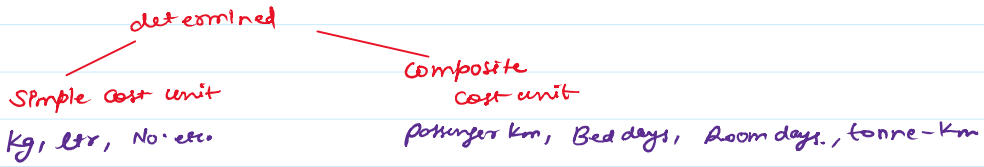
9. Non Controllable Cost - Cost that cannot be controlled by management
eg:- Advertisement exp.

10. Cost Centre - production or service location | function | activity
where cost is accumulated
• Personal - Person • Impersonal - no person

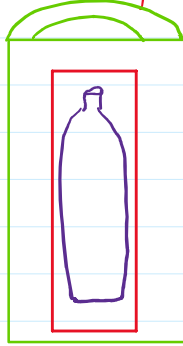
11. Cost object - Product | service / activity for which cost are ascertained

12. Cost Unit -

A unit of product or service for which cost is



13. Cost Driver - Triggers change in cost of an activity

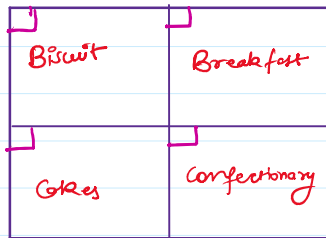


Cost
 ₹100
 + ₹10
 + ₹10
 - ₹10
 - ₹10

 ₹100

14. Cost Apportionment :- Distribute cost among cost centres on some pre determined basis

Biscuit : Breakfast : Cakes : Confectionary
 1 : 1 : 2 : 2



₹1,00,000
 Electricity Bill

15. Cost Allocation :- Assign cost directly to product or service

Cost Accounting Standards

→ CAS are issued by 'Institute of Cost Accountants of India' to bring uniformity in cost measurement, classification of product or service.

→ CAS are formed by CASB [Cost Accounting Standard Board]

→ GIACAP - Generally Accepted Cost Accounting Principles

There are in total 24 Cost Accounting Standards

Cost Accounting Standard 1 to 11

जब हम First class ^① में थे तब 2 word learn करने की capacity थी, 3rd word सुनेत ही सब सिर के ^③ ऊपर से जाता था, फिर mom ने कहा products ^④ मंगवाओ, हमने transport से ^⑤ फिर material ^⑥ मंगवाया, उतारने के लिए employee ^⑦ को बुलाया जिसे हमारी quality ^⑧ के लिए सामान को pack करके direct ^⑨

107 11000
 ⑥ material मंगवाना, उतारने के लिए employee को बुलाना
 जिसे हमारी quality के लिए सामान को pack करके direct
 admin को भेज दिया।
 ⑦ ⑧ ⑨ ⑩ ⑪

- CAS-1 - Classification of Cost
- CAS-2 - Capacity determination
- CAS-3 - Overheads
- CAS-4 - Cost of production
- CAS-5 - Average Cost of Transportation
- CAS-6 - Material cost
- CAS-7 - Employee cost
- CAS-8 - Cost of Utilities
- CAS-9 - Packing material cost
- CAS-10 - Direct expenses
- CAS-11 - Administrative Overheads.

CAS 12 to CAS 17 :-

कार को repair करवाने की जरूरत पड़ेगी अगर service नहीं करवाओगे तो... otherwise pollution बढ़ेगा तो इसे sell करना पड़ जाएगा और depreciation लगी हुई car में किसी को interest नहीं होगा।
 ⑫ ⑬ ⑭ ⑮ ⑯ ⑰

- CAS-12 - Repair & Maintenance Cost
- CAS-13 - Cost of Service Cost Centre
- CAS-14 - Pollution Control Cost
- CAS-15 - Selling & Distribution Overheads
- CAS-16 - Depreciation & Amortization
- CAS-17 - Interest & finance charges

CAS 18 to CAS 24

R & D joint Room में Royal तरीके से रहते हैं
 क्योंकि उन्हें Quality पसंद है, उसी वजह से उनके घर के man पर overburden है Revenue लाने का...
 ⑱ ⑲ ⑳ ㉑ ㉒ ㉓ ㉔

- CAS-18 - Research & Development
- CAS-19 - Joint cost
- CAS-20 - Royalty & Technical Knowhow
- CAS-21 - Quality Control
- CAS-22 - Manufacturing cost
- CAS-23 - Overburden Removal Cost

- CAS-22 - Manufacturing Cost
- CAS-23 - Overburden Removal Cost
- CAS-24 - Treatment of Revenue in Cost Statement

Cost Unit [Simple]

Business	Appropriate Cost Unit
Power	Megawatt, Kilo Watt Hour (KWH)
Cement	Metric Tonne (MT)
Automobile	Number of vehicles
Audit Firm	Audit File / Chargeable hour

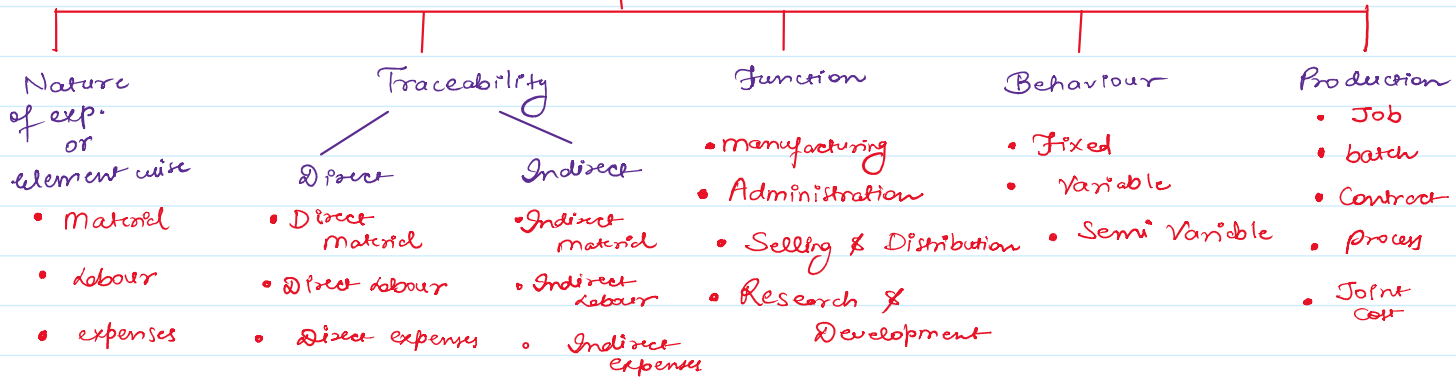
Cost Unit [Composite]

Business	Appropriate Cost Unit
Hotel	Room - Day
Hospital	Patient - Day
Goods Transport	Tonne - kilometre
Passenger Transport	Passenger - Km

Cost Driver

Activity	Cost Drivers
Machine Set-up	No. of Set-Ups or Set-up Hours
Inspection	Inspection Hours
Ordering Costs	No. of orders
Delivery Costs	No. of deliveries

Classification of Cost (CAS 1)



Statement of Cost | Cost Sheet

A)	Direct Material or Cost of RM consumed	xxx
	• op stock of RM + purchase of RM + Carriage inwards - cl stock of RM	
B)	Direct labour	xxx
C)	Direct expenses • Royalty	xxx
(A+B+C)	⇒ Prime Cost	xxx

Calculate PC

op stock of RM = 5000 ✓
pur. of RM = 10000 ✓
cl stock of RM = 8000 ✓
Carriage outward = 2000 ✗
Direct labour = 5000 ✓
Royalty = 3000 ✓
PC ⇒ <u>15000</u>

D)	<u>Factory Overheads</u>	xxx
	• Indirect Material	xx
	• Indirect labour	xx
	• Factory Rent	xx
	• Electricity	xx
	• Power & fuel	xx
	• Depreciation of Factory Assets	xx
	• Work manager salary	xx
	• Research exp. etc.	

Calculate Net works Cost

E)	Gross Factory Cost	xx
	+ op. stock of WIP	xx
	- cl. stock of WIP	(xx)
F)	Net Factory Cost Net works cost	xxx

PC = 50000 +
Dep ⁿ of machinery = 2000 +
Insurance of Factory Building = 3000 +
Factory supervisor salary = 5000 +
Office AC - Repair = 4000 ✗
op WIP = 1000 +
cl WIP = 500 -
NWC & <u>60500</u>

G)	add:- Office & Administrative Overheads	xxx
----	---	-----

eg:- Salary, Rent, depⁿ related to office,
Telephone exp., legal exp.,
audit fee, Bank charges,
postage exp etc.

xxxx

audit fee, bank charges,
postage exp etc.

	General expenses	xxx	
H)	Cost of Production	xxx	
	+ op stock of FG	xx	
	- cl stock of FG	(xx)	
I)	Cost of Goods sold	xx	
J)	add:- Selling & Distribution Overheads	xx	→ Rent, dep ⁿ , Salary, Insurance of showroom, Carriage outwards, advertisement exp. etc.
K)	Cost of Sales	xxx	
	+ profit		
L)	Sales	xxx	

eg:- Cost of production = ₹ 40000
 Factory Overhead = ₹ 10000
 op stock of FG = 3000
 cl stock of FG = 1000
 Direct material = 5000
 Audit fee = 3000

$$\text{find - COGS} \rightarrow 40000 + 3000 - 1000 \\ \rightarrow ₹ 42000$$

eg:-4. find pur. of RM

Direct material Consumed = 26500
 closing stock of RM = 4500
 op stock of RM = 3000

$$26500 = 3000 + x - 4500 \\ \rightarrow ₹ 28,000$$

eg 5: Calculate Direct expenses

DM = ₹ 20000

DL = ₹ 0

Prime cost = ₹ 33500

Depⁿ = 13500

eg 6:- Calculate Gross Factory Cost

Prime cost = ₹ 33500

Depⁿ of factory = ₹ 1000

Rent of factory = 200% of depⁿ

$$\begin{array}{r} 33500 \\ + 1000 \\ + 2000 \\ \hline 36500 \end{array}$$

Items not to be included in cost sheet

1. Income tax *
2. Dividend to sh. holder, interest to debenture holders / loan,

1. Income tax*
2. Dividend to sh. holder, Interest to debenture holders / loan, premium on redemption of share / debenture Securities premium, Interest on Capital, Discount on issue of debenture / issue of share.
3. Donation*, personal exp. of owner, Drawings of proprietor
4. Underwriting commission, Reserve for bad debts*
5. Cash discount

mp

⊛

Scrap Sale - amount receive

↓
Cost decrease

→

Factory Overheads

less:- Sale of Scrap

Illustration 1.

From the following information, find out purchases.

Raw material consumed = ₹26,500.

Closing Stock = ₹4,500

Opening Stock = ₹3,000

Ans → ₹ 28,000 Ans

Illustration 2.

Prime Cost = ₹33,500, Depreciation = ₹1,500. Factory rent is 200% of Depreciation.

Find out the Factory Cost.

Solⁿ

PC =	₹ 33,500
dep ⁿ =	₹ 1,500
rent =	<u>₹ 3,000</u>
FC	<u>₹ 38,000</u>

Illustration 3.

Cost of Sales = ₹37,416. Advertisement Expenses = ₹600. Discount on sales = 50% of advertisement Expenses.

Find Cost of Goods Sold.

Solⁿ

COGS	₹	
+ selling & dison	+ 600	
	+ 300	COGS = 36,516
<u>COGS</u>	<u>37,416</u>	

Illustration 4.

Factory Cost is ₹3,95,000. Find Office and Administration overheads cost which is 7.315% of factory cost.

Solution:

$$\text{Office \& admn OH} = 7.315\% \text{ of } 395000 \rightarrow ₹ 28,894.25$$

Illustration 5.

Gross Factory Cost = ₹58,000. Net Factory Cost = ₹54,000. Opening stock of work-in-progress is ₹8,000. Find closing stock of work-in-progress.

<u>Solⁿ</u>	Gross FC	58000	
	+ op WIP	+ 8000	
	- cl WIP	- x	→ ₹12,000
	Net FC	54000	

Illustration 6.

Prime Cost is ₹41,000. Direct labour cost consists of skilled labour ₹6,000 and unskilled labour ₹2,000. Variable works overhead is 100% of direct wages and fixed works overhead is 60% of direct wages. Sale of scrap is ₹1,800. Find works cost.

Solution:

$$PC = 41000, \quad DL = \underline{8000}, \quad FOH = 8000 + 4800 \Rightarrow ₹12,800$$

den:- Sale of Scrap (1800)

FOH ₹11000

$$\text{Factory Cost} = \text{Prime Cost} + \text{FOH}$$

$$41,000 + 11,000 = 52,000$$

eg:- If the above information remain same but VOH \Rightarrow 100% of skilled labour & FOH is 60% of unskilled labour

then calculate FC (Other information remain same)

<u>Solⁿ</u>	PC = 41000	
	+ FOH =	<u>6000 + 1200 - 1800</u>
	FC	<u>46400</u>

Illustration 7.

From the information, prepare a statement showing expenses which you would disregard in estimating costs. Rent, rates and insurance of office ₹2500, Bad Debt ₹200, Discount Allowed ₹300, Bank charges ₹100 and Donations ₹150.

<u>Solⁿ</u>	Cost Exclusion	
	Bad debts	₹ 200
	+ Discount allowed	₹ 300
	Donation	<u>₹ 150</u>
		₹ 650

+ Discount allowed	₹ 300
Donation	₹ 150
	₹ 650

Illustration 8.

Calculate the amount of direct material if:

Prime cost = ₹50,000. Direct labour = 70% of prime cost.

Solution:

Solⁿ

$$\begin{aligned}
 PC &= DM + DL + Dep \\
 50000 &= x + 35000 + 0 \\
 x &= ₹15,000
 \end{aligned}$$

✓
✓
✓

Illustration 9.

Direct materials cost is ₹80,000. Direct labour cost is ₹ 60,000. Factory overhead is ₹ 90,000. Beginning goods in process were ₹ 15,000. The cost of goods manufactured is ₹ 2,45,000. What is the cost assigned to the ending goods in process?

Solution:

cl - WIP = ?	DL = 60000
op - WIP = 15000	FOH = 90000
Material = 80000	COP = 245000

DM =	80000	
+ DL =	60000	
PC =	140000	
+ FOH =	90000	
GFC	₹ 230000	
+ op WIP	₹ 15000	}
- cl WIP	(x)	
NFC	₹ 245000	
		x = 0
+ office	0	
COP	₹ 245000	

Illustration 10.

Given data that:

Finished goods Opening Inventory ₹ 30,000

Finished goods Closing Inventory ₹ 50,000

Cost of goods sold ₹ 1,90,000

What will be the value of Cost of Production?

Solution:

Cost of production	x	
+ op FG	+ 30000	} $x - 20000 = 190000$
- cl FG	- 50000	
COGS	190000	
		$x = 190000 + 20000$
		$x = 210000$

$$\frac{- \text{cl FG}}{\text{COGS}}$$

$$\frac{- 50000}{190000}$$

$$x = 140000 + 10000$$

$$x = 210000$$

$$x = 210000$$

Illustration 11

Prepare a statement of cost from the following data to show material consumed, Prime cost, factory cost, cost of goods sold and profit.

	1-1-2021 (₹)	31-12-2021 (₹)
Raw material	60,000	50,000
Work-in-progress	24,000	30,000
Finished goods	1,20,000	1,10,000
Purchase of materials during the year		9,00,000
Wages paid		5,00,000
Factory overheads		2,00,000
Administration overheads		50,000
Selling and distribution overheads		30,000
Sales		20,00,000

Soln

Statement of Cost & Profit

A) Direct material		₹ 9,10,000
Op Stock of RM	60000	
+ pur. of RM	90000	
+ Carriage inward	0	
- cl Stock of RM (50000)		
B) Direct labour		₹ 5,00,000
C) Direct expense		0
	Prime cost	₹ 14,10,000
D) Factory OH		₹ 2,00,000
	FWC	₹ 16,10,000
+ op WIP	24000	
		₹ (6000)
- cl WIP	(30000)	
	NWC	₹ 16,04,000
E) office & Admn OH		₹ 50,000
	Cost of Production	₹ 16,54,000
+ op FG	+ 120000	
- cl FG	- 110000	₹ 10,000
	Cost of Goods sold	₹ 16,64,000
F) Selling & Distribution OH		₹ 30,000
	Cost of sales	₹ 16,94,000
G) + Profit		₹ 3,06,000
H) Sales		₹ 20,00,000

Illustration 12.

From the following particulars, prepare cost statement showing the component of total cost and the profit for the year ended 31st December, 2023.

Particulars	1-1-2023 (₹)	Particulars	31-12-2023 (₹)
Stock of finished goods <i>op FCu</i>	6,000	Stock of finished goods <i>cl FCu</i>	15,000
Stock of raw materials <i>op RM</i>	40,000	Stock of raw material <i>cl RM</i>	50,000
Work-in-progress <i>op WIP</i>	15,000	Work-in-progress <i>cl WIP</i>	10,000
Purchase of raw materials <i>RM</i>	4,75,000	General expenses <i>off & admn.</i>	32,500
Carriage inward <i>RM</i>	12,500	sales for the year <i>Sales</i>	8,60,000
Wages <i>DL</i>	1,75,000	Income tax <i>X</i>	500
Works manager's salary <i>FOH</i>	30,000	Dividend <i>X</i>	1,000
Factory employees salaries <i>FOH</i>	60,000	Debenture interest <i>X</i>	5,000
Factory rent, taxes and Insurance <i>FOH</i>	7,250	transfer to sinking fund for	
replacement of machinery <i>X</i>	10,000		
Power expenses <i>FOH</i>	9,500	goodwill written off <i>X</i>	10,000
Other production expenses <i>FOH</i>	43,000	payment of sales tax	?
		Selling expenses	9,250

Solution:

$$\begin{aligned}
 \underline{\underline{RM}} &\rightarrow \text{op stock of RM } 40000 \\
 &+ \text{pur. of RM } 475000 \\
 &+ \text{Carriage inward } 12500 \\
 &- \text{cl stock of RM } (50000) \\
 &\hline
 &= ₹ 4,77,500
 \end{aligned}$$

$$\underline{\underline{DL}} \rightarrow ₹ 1,75,000$$

$$\text{Prime Cost} = ₹ 6,52,500$$

$$\text{FOH} \rightarrow ₹ 1,49,750$$

$$\text{Gross factory cost} = ₹ 8,02,250$$

$$+ \text{op WIP } ₹ 15,000$$

$$- \text{cl WIP } (₹ 10,000)$$

$$\text{Net Factory cost} = ₹ 8,07,250$$

$$\text{add:- Office \& Admn OH } ₹ 32,500$$

$$\text{Cost of Production} = ₹ 8,39,750$$

$$\text{op of FCu } ₹ 6000$$

$$\text{cl of FCu } (₹ 15,000)$$

$$\text{Cost of Goods sold} = ₹ 8,30,750$$

$$\text{add:- Selling \& Distributor OH } ₹ 9,250$$

$$₹ 8,40,000$$

$$\text{Cost of sales}$$

$$₹ 20,000$$

$$+ \text{Profit}$$

$$\text{Sales } ₹ 8,60,000$$

→ sell & dist OH

Illustration 13.

Mr. Gopal furnishes the following data relating to the manufacture of a standard product during the month of April, 2023:

Raw materials consumed	- DM	₹ 15,000
Direct labour charges	- DL	₹ 9,000
Machine hours worked		900
Machine hour rate		5
Administrative overheads	20% on works cost	
Selling overheads	₹ 0.50 per unit	
Units produced		17,100
Units sold		16,000 at ₹ 4 per unit.

You are required to prepare a cost sheet from the above, showing: (a) the cost per unit (b) profit per unit sold and profit for the period.

Solution:

Direct material	₹ 15,000	
Direct labour	₹ 9,000	
Prime Cost	<u>₹ 24,000</u>	
+ FOH	₹ 4,500	
CIFC / NFC	<u>₹ 28,500</u>	
+ Office & admin OH	₹ 5,700	
20% of WC		
Cost of production	<u>₹ 34,200</u>	÷ 17,100 units = ₹ 2 p.u
+ op stock	0	
- cl stock (17,100 - 16,000) (₹ 2,200)		1100 units
1100 x 2		
Cost of goods sold	<u>₹ 32,000</u>	
+ Selling & dist ⁿ OH	₹ 8,000	
(16,000 unit x 0.5 ₹ p.u)		
Cost of Sales	<u>₹ 40,000</u>	
profit (b/f)	<u>₹ 24,000</u>	
[16,000 x 4] Sale	₹ 64,000	