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Summary Sheet

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Overview of Cost and Management Accounting



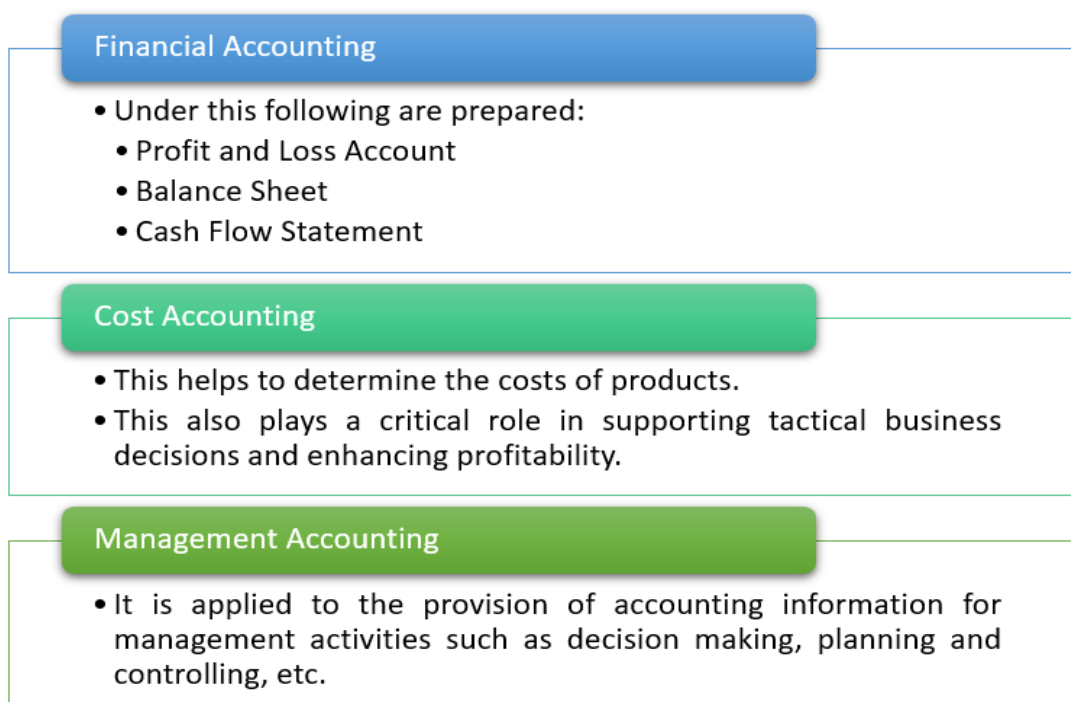
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1 Various types of Accounting

Basically, accounting means that we get Timely and accurate financial information concerning the activities of an enterprise to a diverse group of people such as shareholders, managers, creditors, tax authorities, etc.

Accounting can be categorized as the following:



From the above image, we can see that **financial accounting** is mainly concerned with preparing **Profit and Loss Account, Balance Sheet, and Cash Flow Statement** (which you have already studied in detail), while **cost accounting** helps in **ascertaining and analyzing the cost of products**.

So, we can conclude that both **financial accounting and cost accounting** are primarily focused on **recording, reporting, and presenting financial information**. Financial accounting shows the **overall performance and financial position of the business**, whereas cost accounting focuses on **cost determination and cost control**. In simple terms, both of them deal with **what has already happened in the business**.

On the other hand, **management accounting** has a more **strategic role**. It uses the information generated from financial and cost accounting to assist management in **decision-making, planning, and controlling**. Instead of just presenting past data, it focuses on **guiding future actions and improving business decisions**.

In this chapter we will focus on Cost Accounting. You must be confused with two terms that are Costing and Cost Accounting. So, let's discuss these terms.

2 Costing and Cost Accounting and Cost Accountancy

Normally, people use both these terms interchangeably considering their meaning as same. But both these terms have different meanings:

Costing is concerned with **determining the costs of products/services** and also **planning and controlling such costs**. In simple words, we can say that costing means finding of cost by any process or technique. **Example-** Cost of manufacturing a product.; Cost of providing a service.

Cost Accounting is the **process of accounting for cost** which begins with the recording of the expenditure and ends with the preparation of statistical data which helps in creation of reports and analysis. It is a wider process than costing.

Cost Accountancy has been defined as “**the application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability**”. In simple words, we can say that Cost Accountancy is the practice of Costing and Cost Accounting.

3 Scope of Cost Accounting

Firstly, refer to the below image. Then we will discuss each scope in detail.



1. **Costing:** It is concerned with the **ascertainment of cost of products, processes, jobs, and services**. It helps the business know how much it actually costs to produce a product or provide a service, which is essential for pricing and profitability. Example: Calculating the **total cost of manufacturing one chair** in a furniture factory.
2. **Cost Bookkeeping:** It involves maintaining a **complete and systematic record of all costs** from the time they are incurred until they are **charged to the final product or service**. This ensures proper tracking and accountability of expenses. Example: Recording **raw material, labour, and factory expenses** in cost records.
3. **Cost Analysis:** The recorded costs are **analysed and classified into different categories** such as **direct & indirect, fixed & variable, controllable & uncontrollable costs**. This helps management understand cost behaviour and take better decisions. Example: Separating **factory rent (fixed cost)** and **raw material (variable cost)**.
4. **Cost Control:** It involves **comparing actual costs with predetermined standards** to identify differences (variances). This helps in taking timely action to **prevent excess or unnecessary costs**. Example: Comparing **standard labour cost with actual labour cost** to control inefficiency.
5. **Cost Reports:** It includes preparation of **periodic reports (weekly, monthly, etc.)** for management. These reports help in **planning, performance evaluation, and decision-making** at different levels. Example: Preparing a **monthly cost report** showing

production cost and profit.

6. **Cost Audit:** It refers to the **verification of cost accounts** and checking whether the **cost accounting system is properly followed**. It ensures accuracy, transparency, and compliance with rules. Example: An auditor checking whether **cost records are maintained correctly** as per standards.

4 Objectives of Cost Accounting

The main objectives of Cost and Management accounting are explained as below:

1. **Ascertainment of Cost-** The **primary** objective of Cost Accounting is accumulation and ascertainment of cost. Costs are accumulated, assigned and ascertained for each cost object. This cost object may be a unit, job, operation, process, department or service.

2. **Cost Control and Cost Reduction-** Maintaining discipline in expenditure is one of the main objectives of a good **cost accounting system**. It ensures that expenditures are in line with **predetermined standards**, and any variation from these standards is continuously monitored and reported. This process is known as **Cost Control**, and it acts as a **preventive step**, as it helps in avoiding excess or unnecessary costs in advance.

On the other hand, **Cost Reduction** is an approach where management believes that the cost of a product or service can still be reduced further. It focuses on finding ways to bring down costs even after control measures are in place. Therefore, cost reduction is a **corrective step**, as it aims at improving efficiency and reducing costs beyond the existing standards.

3. **Guide to business policy-** Cost and Management Accounting by providing relevant information, assist management in planning, implementing, measuring, controlling and evaluating of various activities.

5 Difference between Financial Accounting and Cost Accounting

Let us see some major differences between the two from the following image:

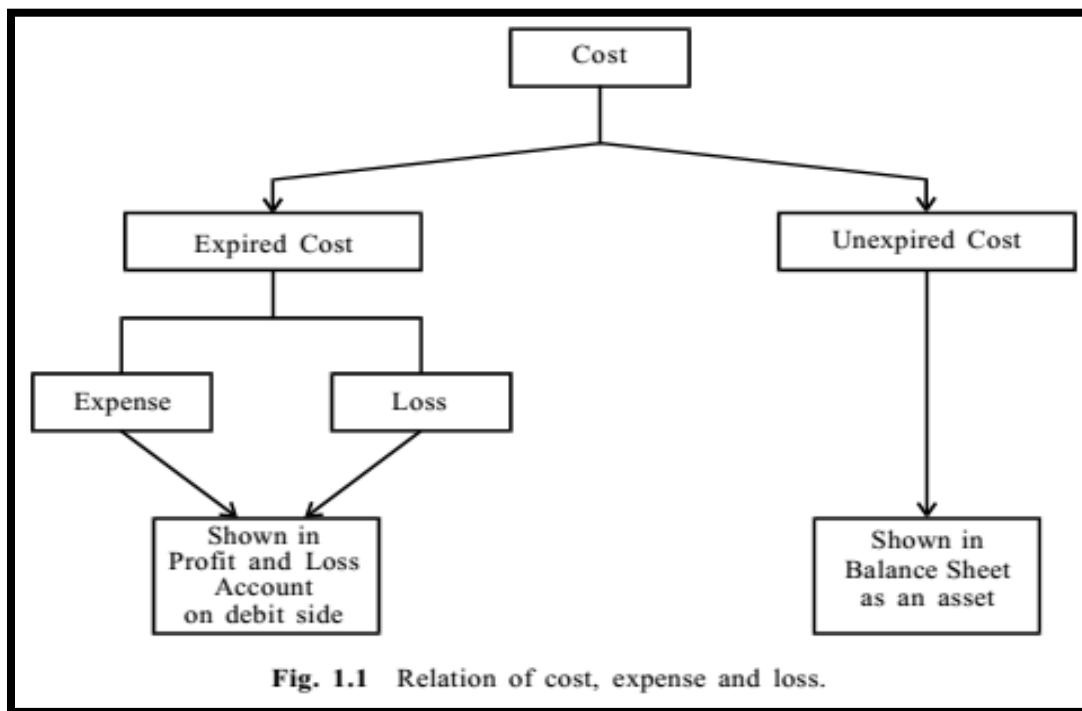
<i>Basis</i>	<i>Financial accounting</i>	<i>Cost accounting</i>
1. Purpose	The main purpose of financial accounting is to prepare Profit and Loss Account and Balance Sheet for reporting to owners or shareholders and other outside agencies, <i>i.e.</i> , external users.	The main purpose of cost accounting is to provide detailed cost information to management, <i>i.e.</i> , internal users.
2. Statutory requirements	These accounts have to be prepared according to the legal requirements of Companies Act and Income Tax Act.	Maintenance of these accounts is voluntary except in certain specified industries where it has been made obligatory to keep cost records under the Companies Act.
3. Analysis of cost and profit	Financial accounts reveal the profit or loss of the business as a whole for a particular period. It does not show the figures of cost and profit for individual products, departments and	Cost accounts show the detailed cost and profit data for each product line, department, process, etc.

6 Meaning of Cost

Cost- Cost is the amount of resource given up in exchange of some goods or services. It can be expressed as a noun as well as a verb. As a noun, it can be defined as the amount of expenditure (actual or notional) incurred on or attributable to a specified article, product or activity. As a verb, it can be as an action to ascertain the cost of a specified thing or activity.

From the following image, we can see that expenses and loss are part of cost:

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Expense- An expired cost resulting from a productive usage of an asset.” **Example** can be use of raw material or depreciation of machine.

Loss: Expired cost which no compensating value has been received.” **Example** can be loss of raw material due to fire.

Note- Expired cost is the cost which has been already incurred, unexpired cost are those cost which has to be paid in future.

7 Cost Center

For the purpose of finding cost, the whole organization is divided into small parts or sections. These are called Cost Centers. **For example-**, if you want to find a cost of different department then department will be the cost center, if you want to find the cost of running different machines then the equipment will be the cost center.

Cost Center can be categorized as Personal cost Center and Impersonal cost Center.

Personal cost Center- When the cost center consists of persons or a group of persons it is known as Personal cost Centers.

Impersonal cost Center- Cost Centers apart from persons or group of persons are termed as Impersonal cost Centers.

8 Cost Unit

Cost Unit is a unit of product or service in relation to which costs are ascertained. **Example-**

<i>Industry/Business</i>	<i>Cost Unit</i>
Cement/Sugar/Steel	Tonne (MT)
Chemicals	Tonne, kilogram, litre, gallon, etc.
Bricks	1,000 bricks or 500 bricks
Soft drink	Crate of 24 bottles or 12 bottles
Nursing home/Hospital	Bed per day/Out patient

9 Cost Object

Cost Object is “anything for which a separate measurement of cost may be desired”. A cost object ‘includes a product, service, cost center, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which costs are ascertained’.

Example-

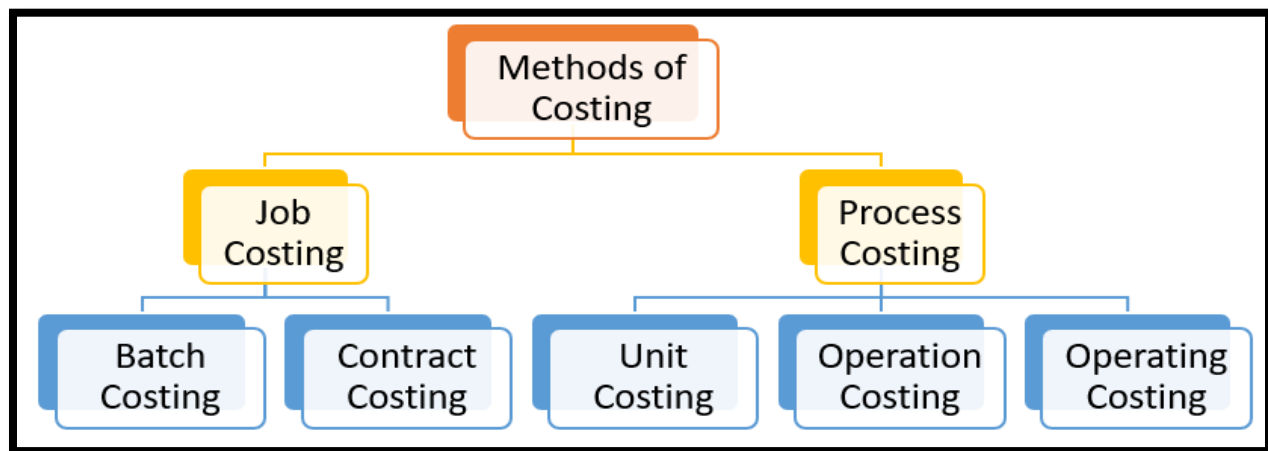
<i>Cost Object</i>	<i>Examples</i>
Product	Car, shaving razor
Service	Telephone hotline, taxi service
Process	Melting process in a steel mill, weaving process in a textile mill
Activity	Developing a website on the Internet, setting a machine, placing a purchase order

In simple words, A **cost object** is any item for which costs are being separately measured. Keep in mind that anything that generates costs or has expenses associated with it can be considered as a cost object.

Now we will discuss a very important part of Costing.

10 Methods of Costing

There are **two main types** of methods of costing- Job costing and Process Costing. All other methods are kind of subcategories of these two main types.



Now we will discuss them one by one. However, we will be discussing all these methods in detail in the upcoming chapters.

10.1 Job Costing

Job Costing is used when work is taken as per the special requirements of the customer. Job costing involves the accumulation of the costs of materials, labor, and overhead for a specific job. **Example:** Printing, Interior Decoration, Painting, etc.

Cost unit in job order costing is taken to be a job or work order for which costs are separately collected and computed.

10.1.1 Batch Costing

In this method, the cost of a batch or group of identical products is ascertained. Each batch of products is a cost unit for which costs are ascertained. **Example** – Shoes, Tyres etc.

10.1.2 Contract Costing

The difference between job and contract is that job is small, and contract is big. The cost unit here is a 'contract' which is of a long duration and may continue over more than one financial year. **Example** – Building of Dam, Bridges, etc.

10.2 Process Costing

Process Costing method is used in **mass production industries manufacturing standardized products in continuous processes of manufacturing.** **Example:** Manufacture of erasers, Chemicals or processed foods.

Costs are accumulated for each process or department. Here raw material has to pass through a number of processes in a particular sequence to completion stage. In order to

arrive at cost per unit, the total cost of a process is divided by the number of units produced, etc.

10.2.1 Single, Unit or Output Costing

When production is uniform and consists of a single or two or three varieties of the same product or where the product is produced in different grades, costs are ascertained grade-wise. As the units of output are identical, the cost per unit is found by dividing the total cost by the number of units produced. **Example:** mines, quarries, brick kilns, steel production, flour mills, etc.

10.2.2 Operations Costing

It is a refinement and **a more detailed application of process costing**. A process may consist of several operations and operation costing involves cost ascertainment for each operation instead of a process. This method provides minute analysis of costs and ensures greater accuracy and better control.

10.2.3 Operating Costing

This method should not be confused with operation costing. It is used in undertakings which **provide services** instead of manufacturing products. **For example**, transport undertakings (road transport, railways, airlines, shipping companies), electricity companies, hotels, hospitals.

So, from the above information, we can say that the difference between job costing and process costing is that **job costing is used for custom products, and process costing is used for mass-produced items that are the same or similar.**

10.3 Multiple Costing

Multiple costing is a costing technique where two or more methods of costing are applied together to determine the total cost of a product. It is generally used in industries where a product is made up of several parts or components, each of which may require a different costing method depending on how it is produced. This approach ensures more accurate cost determination when the production process is diverse and complex.

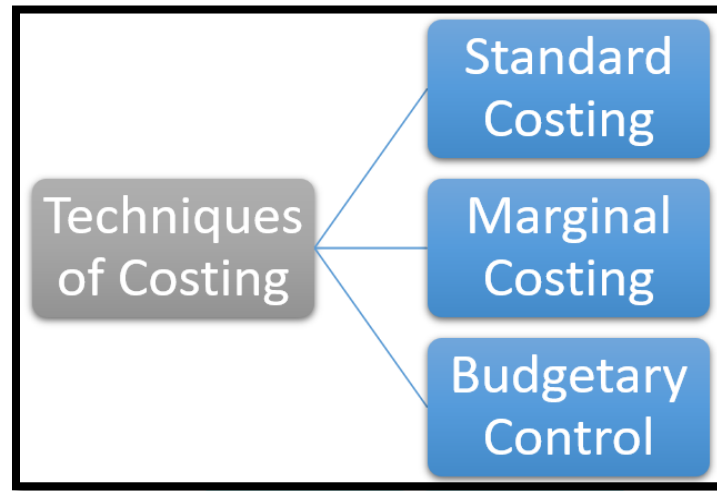
For Example: Take a bicycle manufacturing company. Different parts of the bicycle are manufactured using different techniques:

- **Wires and frames are produced in continuous processes, so process costing is used.**
- **Tyres are made in lots, so batch costing applies.**
- **The final assembly of bicycles, especially customized models, follows job costing.**

Since multiple costing methods are used at different stages for the same end product, this company is said to be using **multiple costing**.

11 Techniques of Costing

These techniques are those which help a company to present the cost data in a particular manner to facilitate achievement of a special purpose like cost control, decision making, etc:



11.1 Standard Costing

This is a very valuable technique of controlling cost. In this technique, standard cost is pre-determined actual performance is measured against the standard. The difference between standard and actual costs are analyzed to know the reasons for the difference so that corrective actions may be taken.

11.2 Marginal Costing

In this technique, separation of costs into fixed and variable (marginal) is of special interest and importance. This is so because marginal costing regards only variable costs as the cost of the products.

11.3 Budgetary Control

This technique is similar to Standard Costing. A budget is an expression of a firm's business plan in financial form and budgetary control is a technique applied to the control of total expenditure on materials, wages and overheads by comparing actual performance with planned performance.

Note: We will be discussing all these techniques in detail in the upcoming chapters.

12 Classification of Costs

There are various ways by which the costs are classified.

Classification of Costs

Direct and Indirect Costs

Fixed and Variable Costs

Committed and Discretionary Costs

Product Cost and Period Cost

Controllable and Non-Controllable Costs

Historical Costs and Pre-determined Costs

Normal or Abnormal Cost

Now we will discuss the above elements one by one.

Direct and Indirect Costs

Direct Costs are those costs which can be **easily and conveniently identified with a specific unit of product**. For example, the **cost of raw materials, wages of labour directly involved in production**, or the **cost of steel used in manufacturing a machine** can be clearly linked to a particular product. For instance, in a garment factory, the **cloth used to make a shirt** and the **taylor's stitching wages for that shirt** are direct costs.

Indirect Costs, on the other hand, are **general costs** that are incurred for the benefit of multiple products, processes, or departments. These costs **cannot be easily traced to a single product**. Examples include **rent of the building, salaries of managers, lighting expenses**, etc. For example, the **factory rent** or **electricity used for lighting the entire production area** cannot be linked to just one shirt or one product, so they are indirect costs.

An important point to remember is that while **direct costs can be directly determined**, **indirect costs have to be allocated or apportioned** to different cost units using a reasonable basis.

This whole concept is explained through **cost traceability**. It means identifying whether a cost can be traced to a specific product or not. If a cost can be clearly linked to a product, it is treated as a **direct cost**. If it cannot be directly linked, it is considered an **indirect cost**.

In simple terms, if a cost is **traceable to a product**, it is a **direct cost**; otherwise, it is an **indirect cost**.

Fixed and Variable Costs

Fixed Costs- These remain constant and do not increase or decrease when volume of production changes. **Example**: Rent of Building , Salaries of Managers etc.

The **characteristics of fixed cost** are:

- (a) fixed total amount within a relevant range of output;
- (b) increase or decrease in per unit fixed cost when quantity of production changes;
- (c) apportioned to departments on some arbitrary basis;
- (d) such cost can be controlled mostly by top level management.

Variable Costs- In other words, when volume of output increases, total variable cost also increases, and vice versa, when volume of output decreases, total variable cost also decreases, but the variable cost per unit remains fixed. **Example** : Cost of cloth required to produce a shirt, Direct Material, Direct Wages, Commissions.

Variable costs show the following **characteristics**:

- (a) variability of the total amount in direct proportion to the volume of output;
- (b) fixed amount per unit in the face of changing volume;
- (c) easy and reasonably accurate allocation and apportionment to departments;
- (d) such costs can be controlled by functional managers.

Now, Let's discuss a point where you may get confused:

Is Variable Cost same as Direct Cost – Answer is NO

Direct costs can also be fixed costs, such as rent payments that are directly tied to a production facility. Also, salaries of managers or supervisors might also be included in direct costs, particularly if they're tied to a specific project.

Also, variable costs do not need to be directly related to the product. In other words, a **variable cost can be an indirect cost**. For example, a company produces mobile phones and has several production machines to produce their devices. The factory machinery needs electricity to function. The cost of electricity is an indirect cost since it can't be tied back to the product or the specific machine. However, the cost of electricity is a variable cost since electricity usage increases with the number of products that are produced or manufactured.

Committed and Discretionary Costs

Fixed cost can be of **two** types:

Committed Cost- This refers to that part of fixed cost that **cannot be reduced**. Example- Salary of CEO.

Discretionary Cost- This refers to that part of fixed cost that **can be reduced**. Example- Salary of low-level managers.

Product Cost and Period Cost

Product Cost- These are those costs which are **necessary** for production and which will not be incurred if there is no production. **Example**: These consist of direct materials, direct labour and some of the factory overheads. Also called **inventoried Costs**.

Period Cost- These are those costs which are **not necessary** for production and are incurred even if there is no production. These are written off as expenses in the period in which these are incurred. **Example**: Showroom rent. Salary, Municipal taxes.

Controllable and Non-Controllable Costs

Controllable Cost- These are the costs which may be directly regulated at a given level of management authority. Variable costs are generally controllable by department heads. **For example**, cost of raw material may be controlled by purchasing in larger quantities.

Non-Controllable Cost- These are those costs which cannot be influenced by the action of a specified member of an enterprise. **For example**, it is very difficult to control costs like factory rent, Showroom rent, Municipal taxes.

Historical Costs and Pre-determined Costs

Historical Cost- These are the costs which are ascertained after these have been incurred. Historical costs are thus, nothing but **actual costs**.

Pre-determined Cost- These are future costs which are ascertained in advance of production on the basis of a specification of all the factors affecting cost. These costs are extensively used for the purpose of **planning and control**.

Normal or Abnormal Cost

Normal Cost- Normal cost may be defined as a cost which is normally incurred on expected lines at a given level of output. In another words, it is the cost which is **normally** incurred at a given level of output under the conditions in which that level of output is normally attained.

Abnormal Cost- Abnormal cost is that which is not normally incurred at a given level of output. Such cost is over and above the normal cost. In another words, it is the cost which is **not normally** incurred at a given level of output in the conditions in which that level of output is normally attained. It is charged to Costing Profit and loss Account.

Now we will discuss various types of costs for Management Decision Making.

13 Costs for Management Decision Making

There are various costs for Management Decision Making:

Costs for Management Decision Making



Now, we will discuss the above costs one by one.

Relevant or Irrelevant Costs

Relevant Costs- A relevant cost is a cost whose magnitude will be affected by a decision being made. In decision-making, management should consider only future costs and revenues.

Irrelevant Costs- Irrelevant cost is one which is not impacted by decision making. **Example:** The cost of car insurance will not be impacted irrespective of you travel by car or bus whereas cost of petrol will be impacted depending on you travel by bus or own car.

Sunk Costs

A **sunk cost** is an expenditure made in the past that cannot be changed and over which management no longer has control. They play no role in decision making in the current period. **For example,** in the case of a decision relating to the replacement of a machine, the written down value of the existing machine is a sunk cost and therefore, not considered.

You must understand the **difference between sunk costs and irrelevant costs**. **Not all irrelevant costs are sunk costs, but all sunk costs are irrelevant**. This can be understood with the following example, in choosing from the two alternative methods of production, if direct material cost is the same under the two alternatives, it is an irrelevant cost. But direct material cost is not a sunk cost because it will be incurred in future and is a future cost.

Differential or Incremental Costs

Differential cost is the **increase or decrease in total cost that results from an alternative course of action**. It is ascertained by subtracting the cost of one alternative from the cost of another alternative.

Marginal Costs

Marginal cost is the **additional cost of producing one additional unit**. Marginal cost is the same thing as variable cost. Marginal costing (or variable costing) is a technique of charging only variable costs to products.

Imputed Costs

An **imputed cost** is an invisible **cost** that is not incurred directly, as opposed to an explicit **cost**, which is incurred directly. - These costs are **notional costs** which do not involve any cash outlay. Interest on capital, the payment for which is not actually made, is an example of imputed cost. These costs are similar to opportunity costs. **Imputed cost is also known as Notional or Implicit Cost**

Opportunity Costs

Opportunity cost is the sacrifice involved in accepting an alternative under consideration. In another words, this cost refers to the value of sacrifice made or benefit of opportunity foregone in accepting an alternative course of action. **For example**, company invests in debentures at 17% rather than in FD at 10%. In this case investing in FD at 10% is an opportunity Cost.

Replacement Costs

This is the cost at which there could be purchased an asset identical to that which is being replaced. In simple words, replacement cost is the current market cost of replacing an asset.

For example, a machinery purchased in 1990 at ₹10,000 is discarded in 1998 and a new machinery of the same type is purchased for ₹15,000. So the replacement cost of the machinery is ₹15,000.

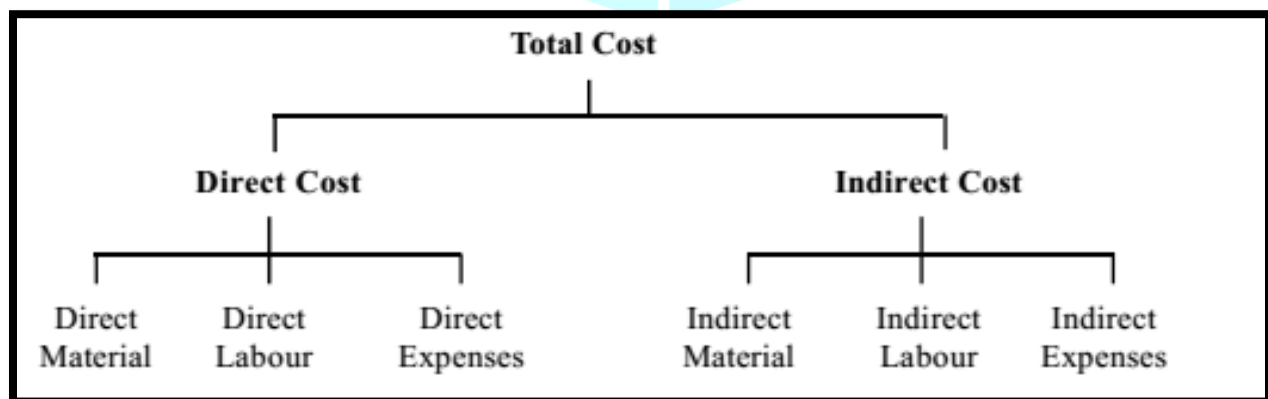
Explicit and Implicit Costs

Out-of-pocket costs, also known as explicit costs, are those costs that involve **cash outlays** or require the utilization of current resources. Examples of these costs are wages, material cost, insurance, power cost, etc. Out-of-pocket cost may be either fixed (manager's salary) or variable (raw materials and direct wages).

Implicit Costs are does not involve any immediate cash outlay. They are not recorded in the books of account. They are also known as **economic costs**.

14 Elements of Cost

Elements of Cost can be classified as:



We have already discussed Direct Cost and Indirect Cost. Now, we will discuss the subheads.

Materials Cost- The substance from which the finished product is made is known as **material**. Material cost **includes** cost of procurement, freight inwards, taxes, insurance.

Direct Materials

- Clay in bricks
- Leather in shoes
- Steel in machines
- Cloth in garments
- Timber in furniture

Indirect Materials

- Lubricating oil
- Consumables
- Nuts and bolts
- Coal
- Small tools
- Office stationery

Labor Cost- The cost of remuneration (wages, salaries, commissions, bonuses, etc.) of the employees/labor of an undertaking. It includes all fringe benefits like **P.F. contribution, gratuity, ESI, overtime, incentive bonus, wages for holidays, idle time etc.**

Direct Labour

- Machine operator
- Shoe-maker
- Carpenter
- Weaver
- Tailor

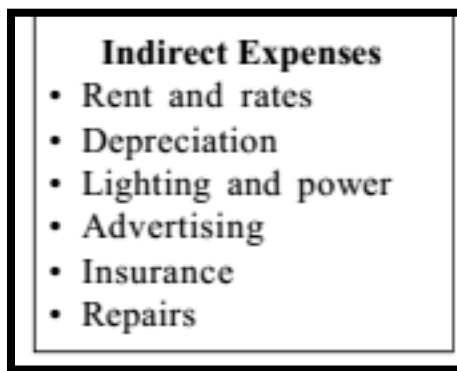
Indirect Labour

- Supervisor
- Inspector
- Works manager
- Clerk
- Peon
- Watchman

Expenses- All costs other than material and labor are termed as expenses.

Direct or Chargeable Expenses

- Hire of special plant for a particular job
- Travelling expenses in securing a particular contract
- Cost of patent rights
- Experimental costs
- Cost of special drawings, designs and layouts
- Job processing charges
- Royalty paid in mining
- Depreciation or hire of a plant used on a contract at site



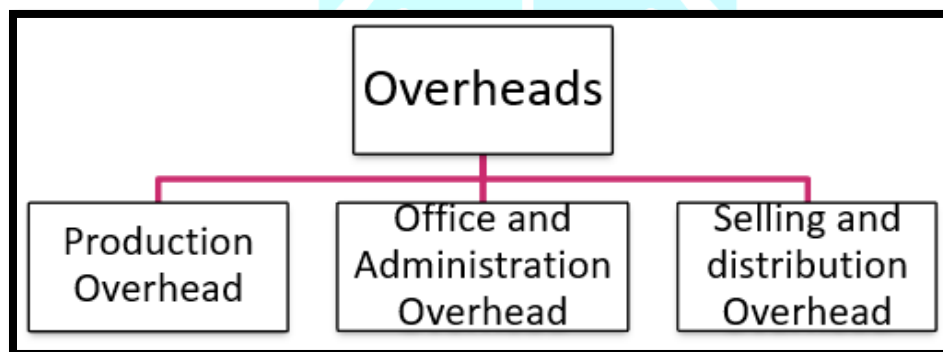
15 Prime cost and Overhead Cost

For better understanding, refer to the formula:

Prime Cost= Direct Material + Direct Labour + Direct Expenses

Overhead= Indirect Material + Indirect Labour + Indirect Expenses

Overheads are further divided into three types:



1. Production overhead. Also known as factory overhead, works overhead or manufacturing overhead, these are those overheads which are concerned with the production function. They include indirect materials, indirect wages and indirect expenses in producing goods or services.

- (a) *Indirect material*—Examples: Coal, oil, grease, etc.; stationery in factory office, cotton waste, brush, sweeping broom, etc.
- (b) *Indirect labour*—Examples: Works manager's salary, salary of factory office staff, salary of inspector and supervisor, wages of factory sweeper, wages of factory watchman.
- (c) *Indirect expenses*—Examples: Factory rent, depreciation of plant, repair and maintenance of plant, insurance of factory building, factory lighting and power, internal transport expenses.

2. Office and administration overhead. This is the indirect expenditure incurred in general administrative function, *i.e.*, in formulating policies, planning and controlling the functions, directing and motivating the personnel of an organisation in the attainment of its objectives.

These overheads are of general character and have no direct connection with production or sales activities. This category of overhead is also classified into indirect material, indirect labour and indirect expenses.

- (a) *Indirect material*—Examples: Stationery used in general administrative office, postage, sweeping broom and brush, etc.
- (b) *Indirect labour*—Examples: Salary of office staff, salary of managing director, remuneration of directors of the company.
- (c) *Indirect expenses*—Examples: Rent of office building, legal expenses, office lighting and power, telephone expenses, depreciation of office furniture and equipments, office air-conditioning, sundry office expenses.

3. Selling and distribution overhead. Selling overhead is the cost of promoting sales and retaining customers. It is defined as “*the cost of seeking to create and stimulate demand and of securing orders.*” Examples are advertisements, samples and free gifts, salaries of salesmen, etc.

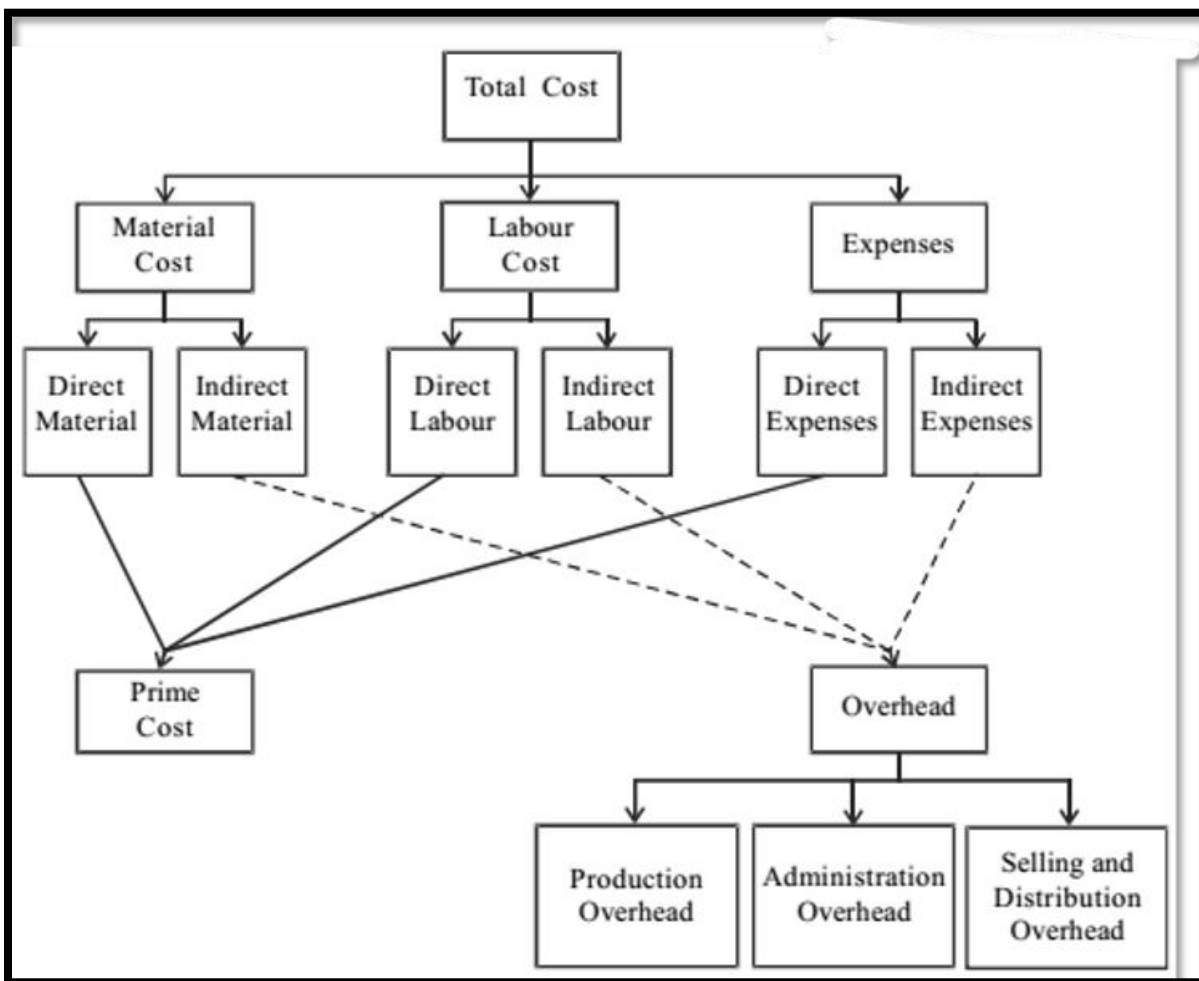
Selling and distribution overhead are also grouped into indirect material, indirect labour and indirect expenses.

- (a) *Indirect material*—Examples: Packing material; stationery used in sales office, cost of samples, price list; catalogues, oil, grease etc., for delivery vans, etc.
- (b) *Indirect labour*—Examples: Salary of sales manager, salary of sales office staff, salary of warehouse staff, salary of drivers of delivery vans, etc.
- (c) *Indirect expenses*—Examples: Advertising, travelling expenses, showroom expenses, carriage outwards, rent of warehouse, bad debts, insurance of goods in transit, etc.

Note- Formula for Prime Cost will be used throughout the costing module.

16 Components of Total Cost

The following flowchart is the summarized view of what we have discussed till now.



So, from the flowchart we can see that:

Prime Cost = Direct material + Direct labour + Direct expenses

Overhead = Indirect material + Indirect labour + Indirect expenses

Apart from the above-mentioned formulas, the following formulae are also important:

Prime Cost = Direct material + Direct labour + Direct expenses

Works Cost or Factory Cost = Prime cost + Factory overhead.

Cost of Production = Works cost + Administration overhead.

Total Cost or Cost of Sales = Cost of production + Selling and distribution overhead.

Conversion cost= Factory Cost – Direct Material Cost

Conversion cost is the total cost of **converting** a raw material into finished product.

Note: Production Overhead is also known as Factory Overhead.

17 Cost Sheet

A **Cost Sheet** or Cost Statement is “a document which provides a detailed cost information.

Format:

		No. of units produced.....	
<i>Particulars</i>		<i>Total cost</i> ₹	<i>Cost per unit</i> ₹
Direct materials			
Direct labour			
Direct (or chargeable) expenses			
	Prime Cost		
Works overheads			
	Works Cost		
Office and administrative overheads			
	Cost of Production		
Selling and distribution overheads			
	Total Cost or Cost of Sales		
Profit or loss			
Sales			

Advantages of Cost Accounting

There are various advantages of Cost Accounting:

1. Reveals what is profitable or not profitable
2. Cost control and Analysis
3. Decision making
4. Deciding on Selling prices

5. Formulating policies

6. Prevents frauds

Note: The above points are generic in nature. So, we are not explaining the above points.

18 Cost Audit

Cost audit is the specific application of auditing principles and procedures in the field of cost accounting .

Cost Accounting Standards (CAS) are **a set of standards that are designed “to achieve uniformity and consistency in cost accounting practices.”**

<i>CAS No</i>	<i>Title</i>	<i>Objective</i>
CAS1	Classification of Cost	For preparation of cost statements.
CAS2	Capacity Determination	For determination of capacity.
CAS3	Overheads	For collection, allocation, apportionment and absorption of Overheads.
CAS3 (Revised 2011)	Overheads	To bring uniformity and consistency in the principles and methods of determining the Overheads with reasonable accuracy.
CAS4	Cost of Production for Captive Consumption	To determine the Assessable Value of Excisable Goods used for captive consumption.
CAS5	Average (equalized) Cost of Transportation	To determine averaged/equalized Transportation Cost
CAS6	Material Cost	To bring uniformity and consistency in the principles and methods of determining the Material Cost with reasonable accuracy in an economically feasible manner.

<i>CAS No</i>	<i>Title</i>	<i>Objective</i>
CAS7	Employee Cost	To bring uniformity and consistency in the principles and methods of determining the Employee cost with reasonable accuracy.
CAS8	Cost of Utilities	To bring uniformity and consistency in the principles and methods of determining the Cost of Utilities with reasonable accuracy.
CAS9	Packing Material Cost	To bring uniformity and consistency in the principles and methods of determining the Packing Material cost with reasonable accuracy.
CAS10	Direct Expenses	To bring uniformity and consistency in the principles and methods of determining the Direct Expenses with reasonable accuracy.
CAS11	Administrative Overheads	To bring uniformity and consistency in the principles and methods of determining the Administrative Over heads with reasonable accuracy.
CAS12	Repairs and Maintenance Cost	To bring uniformity and consistency in the principles and methods of determining the Repairs and Maintenance Cost with reasonable accuracy.
CAS13	Cost of Service Cost Centre	To bring uniformity and consistency in the principles and methods of determining the Cost of Service Cost Centre with reasonable accuracy.
CAS-14	Pollution Control Cost	To bring uniformity and consistency in the principles and methods of determining the Pollution Control Costs with reasonable accuracy.

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