

# Cost accounting

Introduction

# COST - MEANING

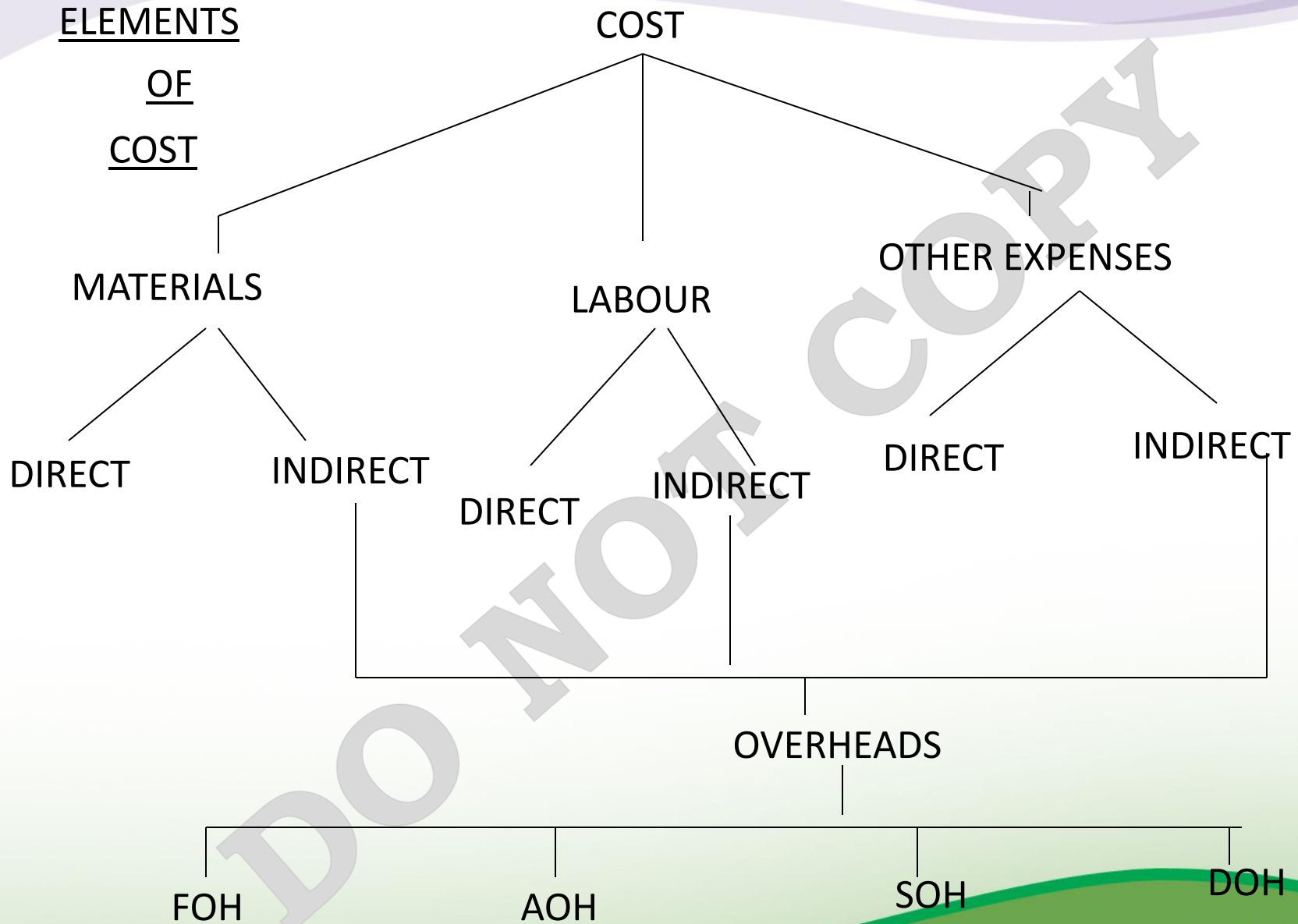
Cost means the amount of expenditure (actual or notional) incurred on, or attributable to, a given thing.

# COST ACCOUNTING - MEANING

Cost accounting is concerned with recording, classifying and summarizing costs for determination of costs of products or services, planning, controlling and reducing such costs and furnishing of information to management for decision making

## ELEMENTS

### OF COST



MATERIAL: The substance from which the finished product is made is known as material.

Direct material is one which can be directly or easily identified in the product Eg: Timber in furniture, Cloth in dress, etc.

Indirect material is one which cannot be easily identified in the product.

# Examples of Indirect material

- At factory level – lubricants, oil, consumables, etc.
- At office level – Printing & stationery, Brooms, Dusters, etc.
- At selling & dist. level – Packing materials, printing & stationery, etc.

LABOUR: The human effort required to convert the materials into finished product is called labour.

DIRECT LABOUR is one which can be conveniently identified or attributed wholly to a particular job, product or process.

Eg:wages paid to carpenter, fees paid to tailor,etc.

INDIRECT LABOUR is one which cannot be conveniently identified or attributed wholly to a particular job, product or process.

# Examples of Indirect labour

- At factory level – foremen's salary, works manager's salary, gate keeper's salary, etc
- At office level – Accountant's salary, GM's salary, Manager's salary, etc.
- At selling and dist.level – salesmen salaries, Logistics manager salary, etc.



OTHER EXPENSES are those expenses other than materials and labour.

DIRECT EXPENSES are those expenses which can be directly allocated to particular job, process or product. Eg : Excise duty, royalty, special hire charges, etc.

INDIRECT EXPENSES are those expenses which cannot be directly allocated to particular job, process or product.

# Examples of other expenses

- At factory level – factory rent, factory insurance, lighting, etc.
- At office level – office rent, office insurance, office lighting, etc.
- At sales & dist.level – advertising, show room expenses like rent, insurance, etc.

# How to treat the following?

- Carriage
- Packaging expenses

DIRECT MATERIAL  
DIRECT LABOUR  
DIRECT EXPENSES

**PRIME COST**  
FACTORY OVERHEADS

**FACTORY COST**  
OFFICE OVERHEADS

**COST OF PRODUCTION**  
SELL & DIST OVERHEADS

**COST OF SALES**  
PROFIT

**SALES**

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OPENING STOCK OF RAW MATERIALS  
+PURCHASES  
+CARRIAGE INWARDS  
-CLOSING STOCK OF RAW MATERIALS

**VALUE OF MATERIALS CONSUMED**

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+DIRECT WAGES  
+DIRECT EXPENSES

**PRIME COST**

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+FACTORY OVERHEADS  
+OPENING STOCK OF WIP  
-CLOSING STOCK OF WIP

**FACTORY COST**

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**(CONT.)**

**FACTORY COST**

**+ADMINISTRATIVE OVERHEADS**

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**COST OF PRODUCTION**

**+OPENING STOCK OF FINISHED GOODS**

**-CLOSING STOCK OF FINISHED GOODS**

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**COST OF GOODS SOLD**

**+SELL. & DIST. OVERHEADS**

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**COST OF SALES**

**+PROFIT**

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**SALES**

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# COST CLASSIFICATION – ON THE BASIS OF

- Nature
- Function
- Direct & indirect
- Variability
- Controllability
- Normality
- Financial accounting classification
- Time
- Planning and control
- Managerial decision making

# ON THE BASIS OF NATURE

- MATERIALS
- LABOUR
- EXPENSES



# ON THE BASIS OF FUNCTION

- MANUFACTURING COSTS
- COMMERCIAL COSTS – ADM AND S&D COSTS

# ON THE BASIS OF DIRECT AND INDIRECT

- DIRECT COSTS
- INDIRECT COSTS

# ON THE BASIS OF VARIABILITY

- FIXED COSTS
- VARIABLE COSTS
- SEMI VARIABLE COSTS

# ON THE BASIS OF CONTROLLABILITY

- CONTROLLABLE COSTS
- UNCONTROLLABLE COSTS

# ON THE BASIS OF NORMALITY

- NORMAL COSTS
- ABNORMAL COSTS

# ON THE BASIS OF FIN. ACC

- CAPITAL COSTS
- REVENUE COSTS
- DEFERRED REVENUE COSTS

# ON THE BASIS OF TIME

- HISTORICAL COSTS
- PRE DETERMINED COSTS

# ON THE BASIS OF PLANNING AND CONTROL

- BUDGETED COSTS
- STANDARD COSTS



# **ON THE BASIS OF MANAGERIAL DECISION MAKING**

- MARGINAL COSTS
- OUT OF POCKET COSTS
- SUNK COSTS
- IMPUTED COSTS
- OPPORTUNITY COSTS
- REPLACEMENT COSTS
- AVOIDABLE COSTS
- UNAVOIDABLE COSTS
- RELEVANT AND IRRELEVANT COSTS
- DIFFERENTIAL COSTS

# TERMS IN COST ACCOUNTING

- COST UNIT
- COST CENTRE
- COST ESTIMATION
- COST ASCERTAINMENT
- COST ALLOCATION
- COST APPORTIONMENT
- COST REDUCTION
- COST CONTROL

# METHODS OF COSTING

- JOB COSTING
- CONTRACT COSTING
- BATCH COSTING
- PROCESS COSTING
- UNIT COSTING
- OPERATING COSTING
- OPERATION COSTING
- MULTIPLE COSTING

# TYPES OF COSTING

- UNIFORM COSTING
- MARGINAL COSTING
- STANDARD COSTING
- HISTORICAL COSTING
- DIRECT COSTING
- ABSORPTION COSTING