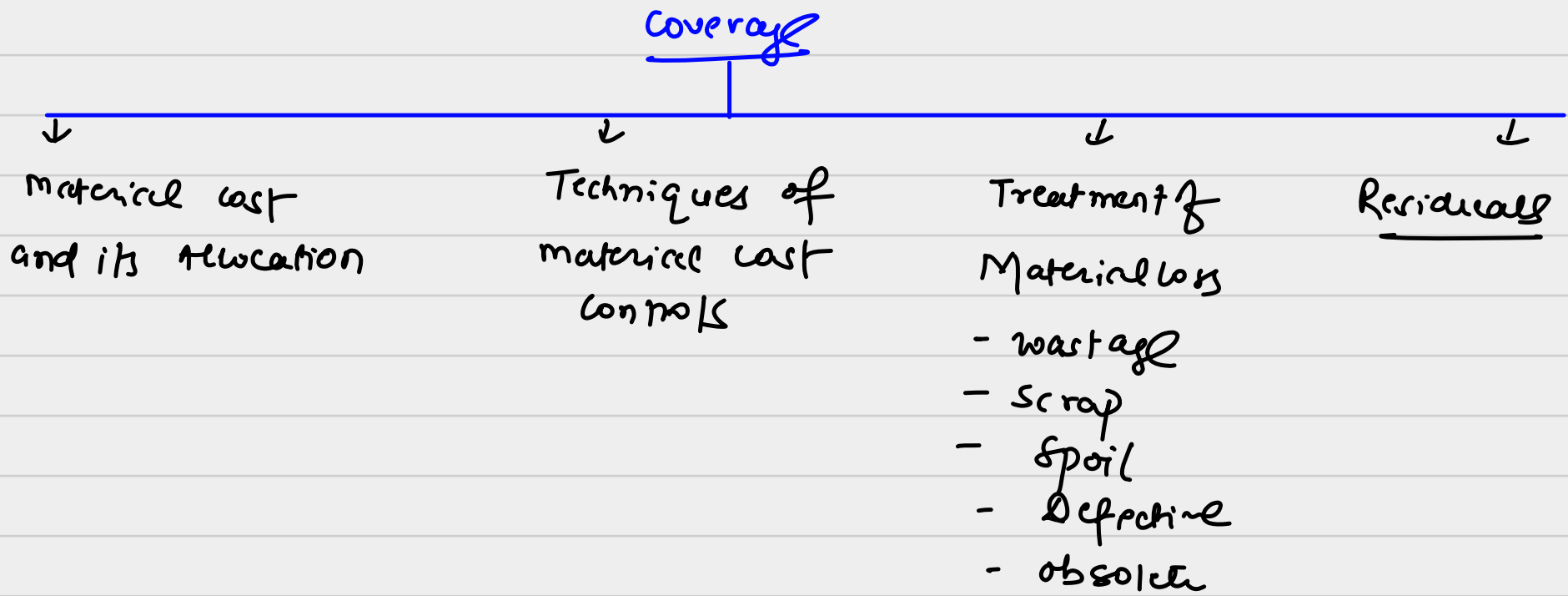
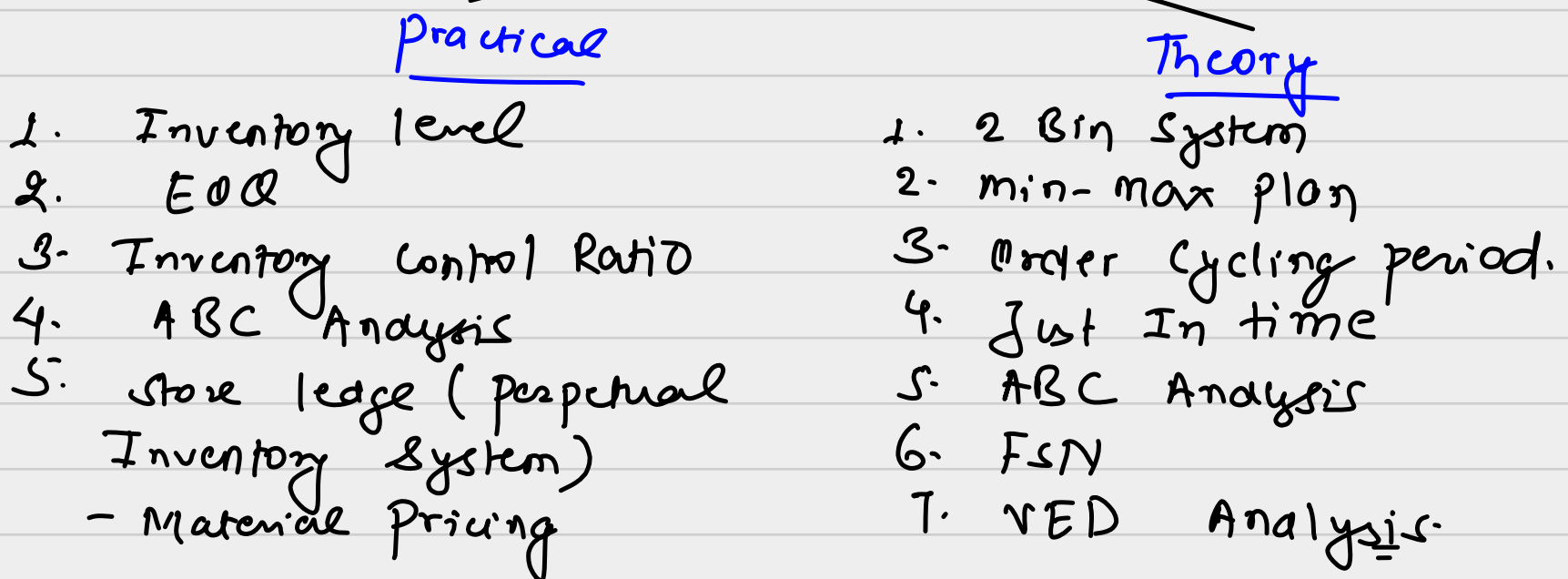


Cost Management Theory - 2

Chapter:- Material Cost



1. Material Cost Control Techniques

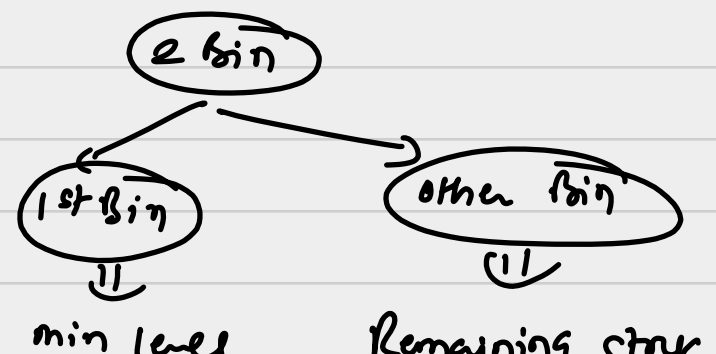


① min-max plan

- * oldest method
- * 2 levels are identified
 - ① Min level → order to be placed
 - ② max level → reached when order is received
- * Ignore critical value items, EOQ.

② 2 Bin System

- * Bin means store location



High value items

↓
consumed
↓
order placed.

③ Order Cycling Period

- * Order reviewed periodically (30 day | 60 days | 90 days)
- * Critical value → short review
- * Order is placed, if items is not sufficient for next review considering depletion rate.

④ JIT

- * Based on zero inventories concept
- * produce when order is received
& procure when production is done

2 Principle:-

- ① produce when it is required
- ② product supplied to customer when they want.

⑤ FSN Analysis

Fast-moving

- * frequently used in production

Slow-moving

- * Used sometimes

Non-moving

- * Not in use.

Treatment

- * Nearest to issue point
- * Review frequently

- * Place little far from issue point & review periodically.

- * Kept for disposal.

⑥ VED Analysis

Vital

- * its unavailability can disrupt production

- * short review, strict control

Essential

- * essential but not vital

- * periodic review, moderate control

Desirable

- * optional in nature.

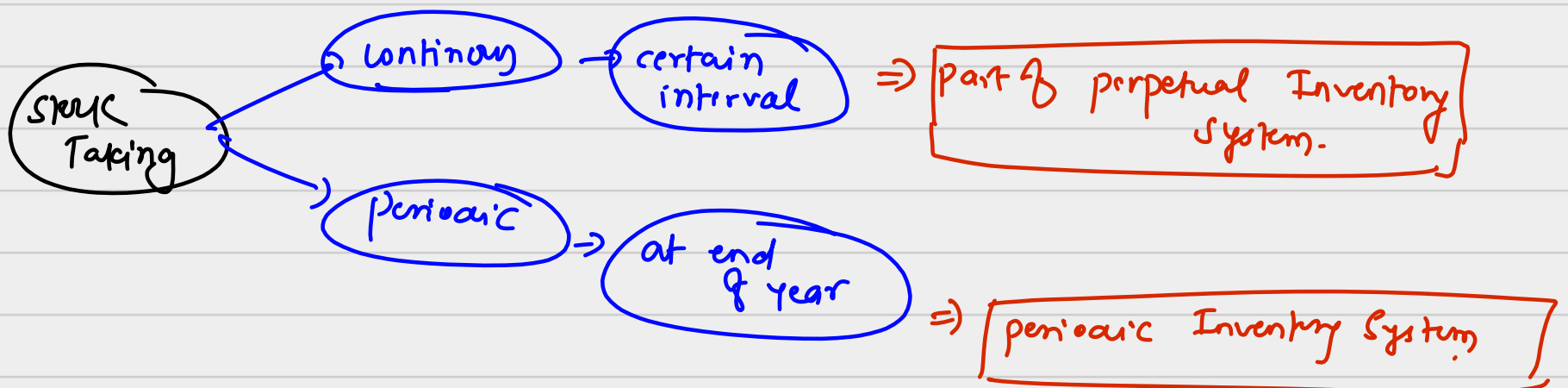
- * low control

⑦ Perpetual Inventory System & continuous stock taking

Systematic record maintain
by store dept.
→ Bin Card
→ Store ledger

physical verification
at certain interval.

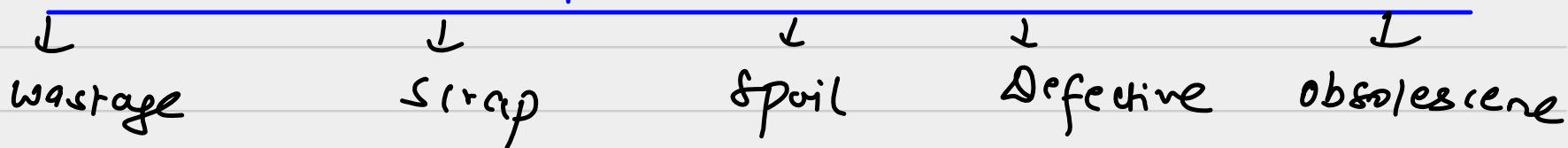
⇒ Qty & value of stock is always
available after each receipt
& issue.



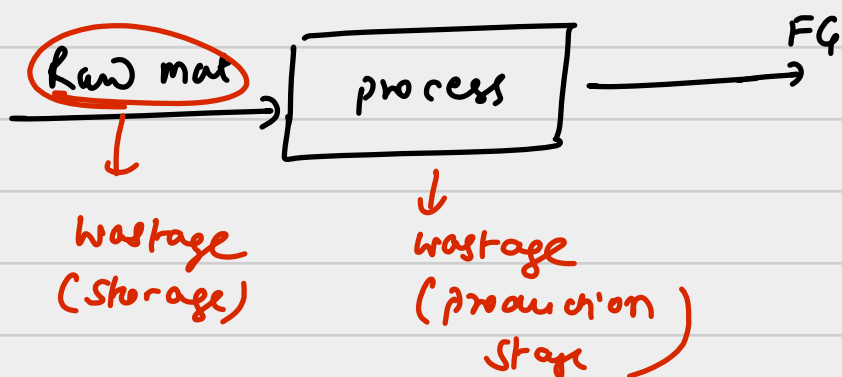
* periodically inventories are physically
counted & value assigned at pre-
determined method of valuation.

value of
CS = op + purch - issued at
prescribed basis.

b. Treatment of material loss.

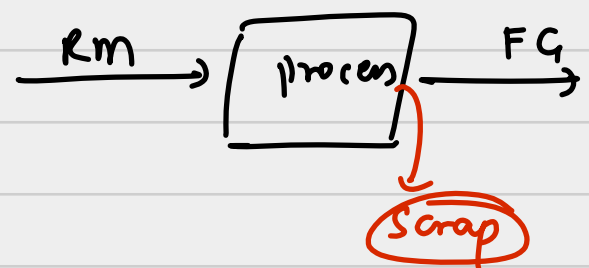


1. Wastage



* connected with Input

Scrap

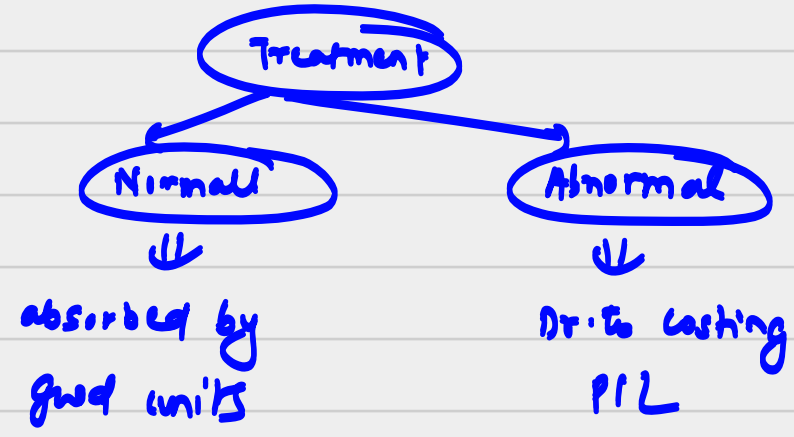


* connected with output

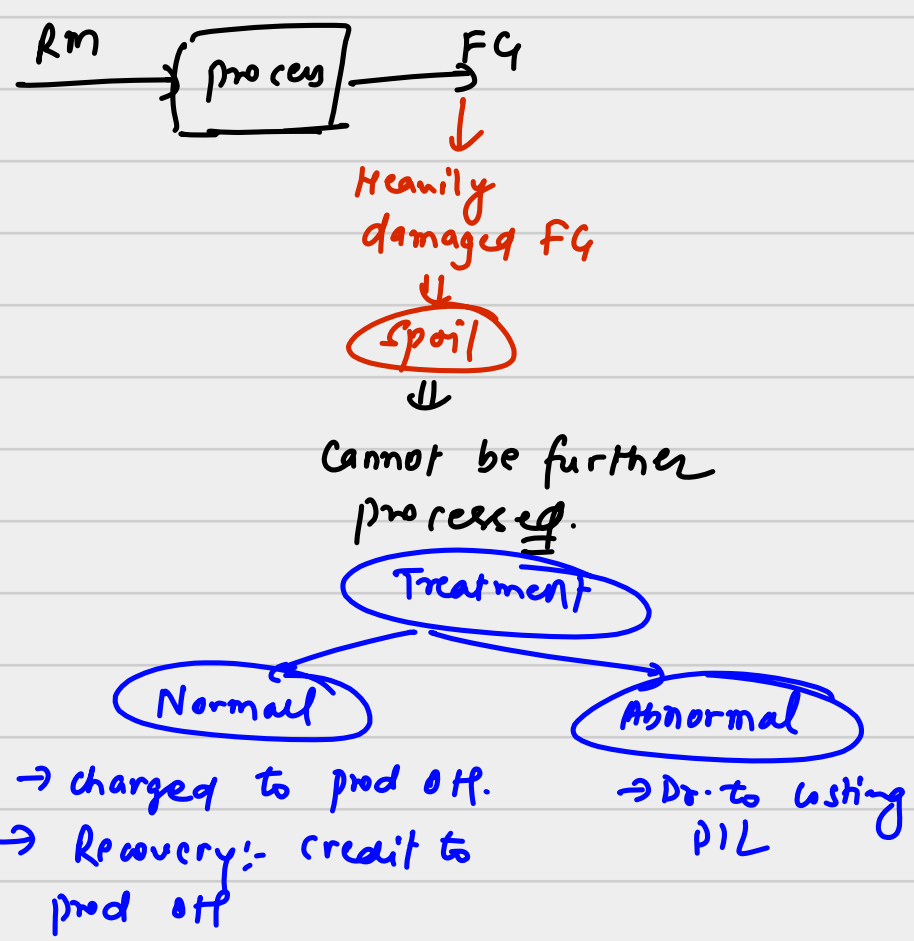
* visible

* Generally has realisable

- * Visible / Invisible
- * May or may not have value (Generally no value)



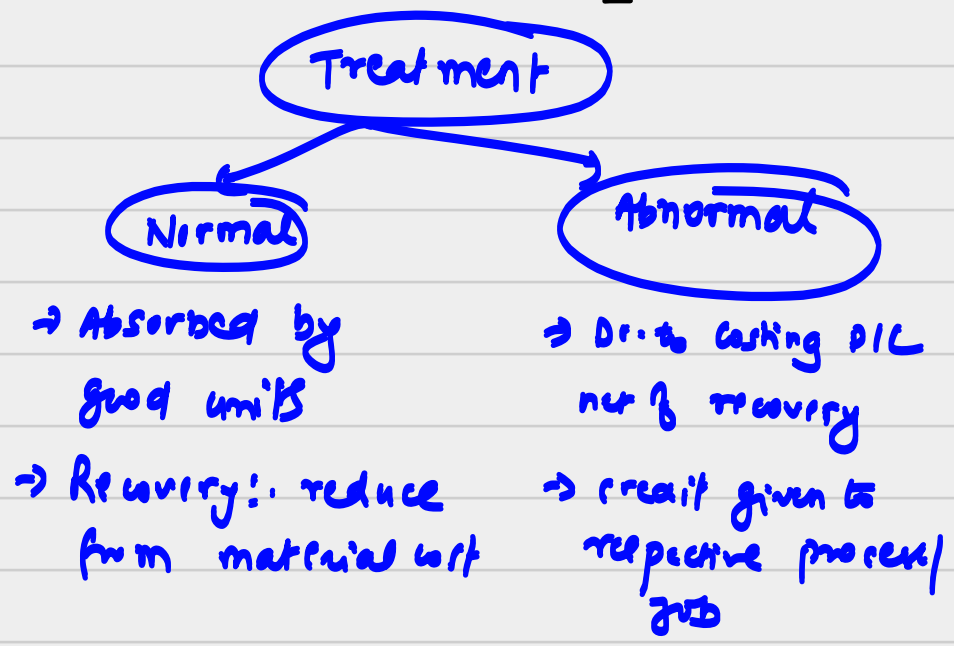
3 Spoil



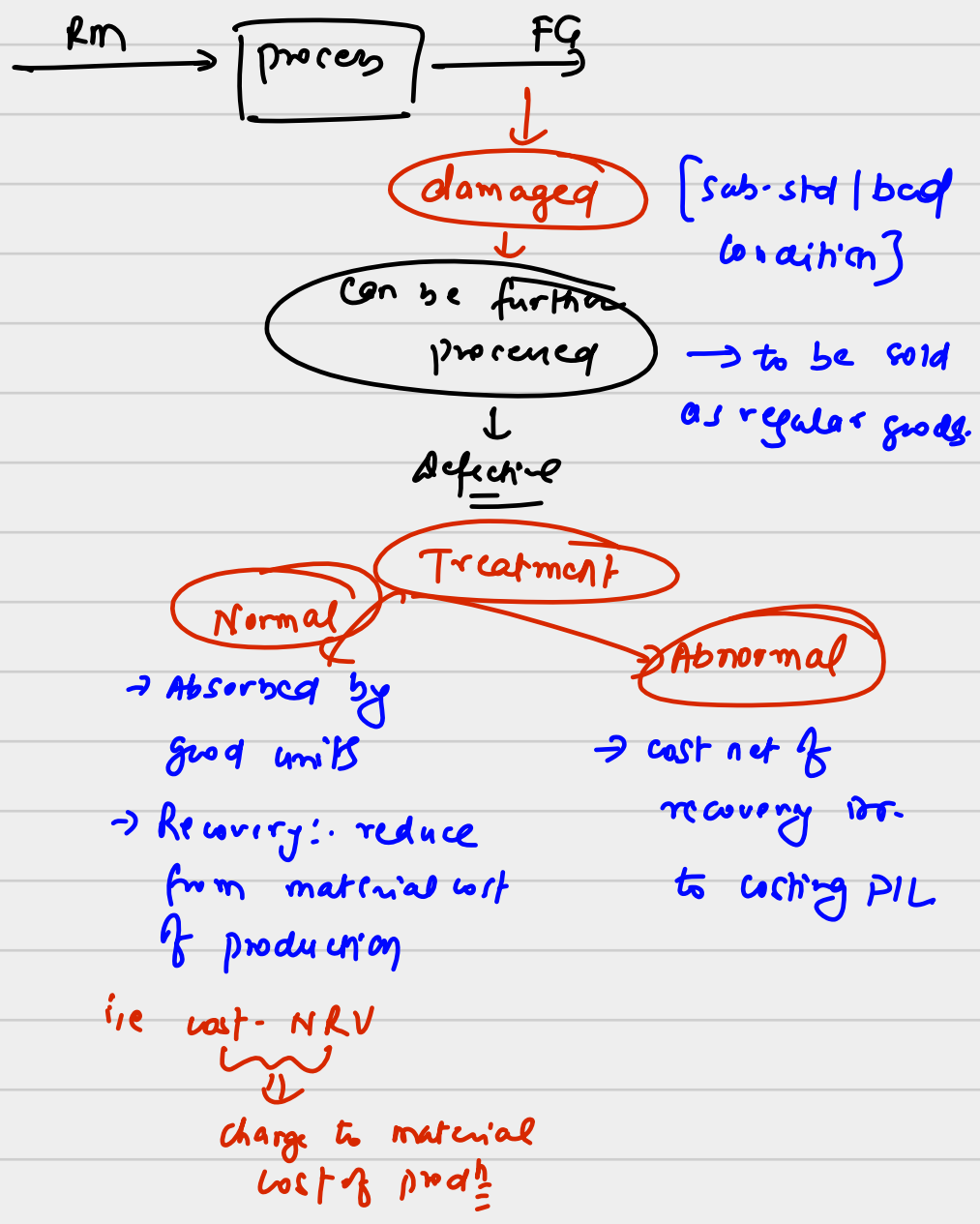
- eg. ① POH AC Dr.
To, SLC AC
- ② Bank AC Dr.
To, prod control AC

value (insignificant)

- * Sometimes, reintroduced in prodⁿ process as raw material.



4 Defective



ie cost - NRV
↓
charge to material cost of prodⁿ

Difference

Scrap

- * connected with output
- * low recoverable value
- * cannot be rectified.

Defective

- * Input/output
- * sold at lower sp than good units
- * can be rectified

5) Obsolescence

- * Decrease in intrinsic value of goods

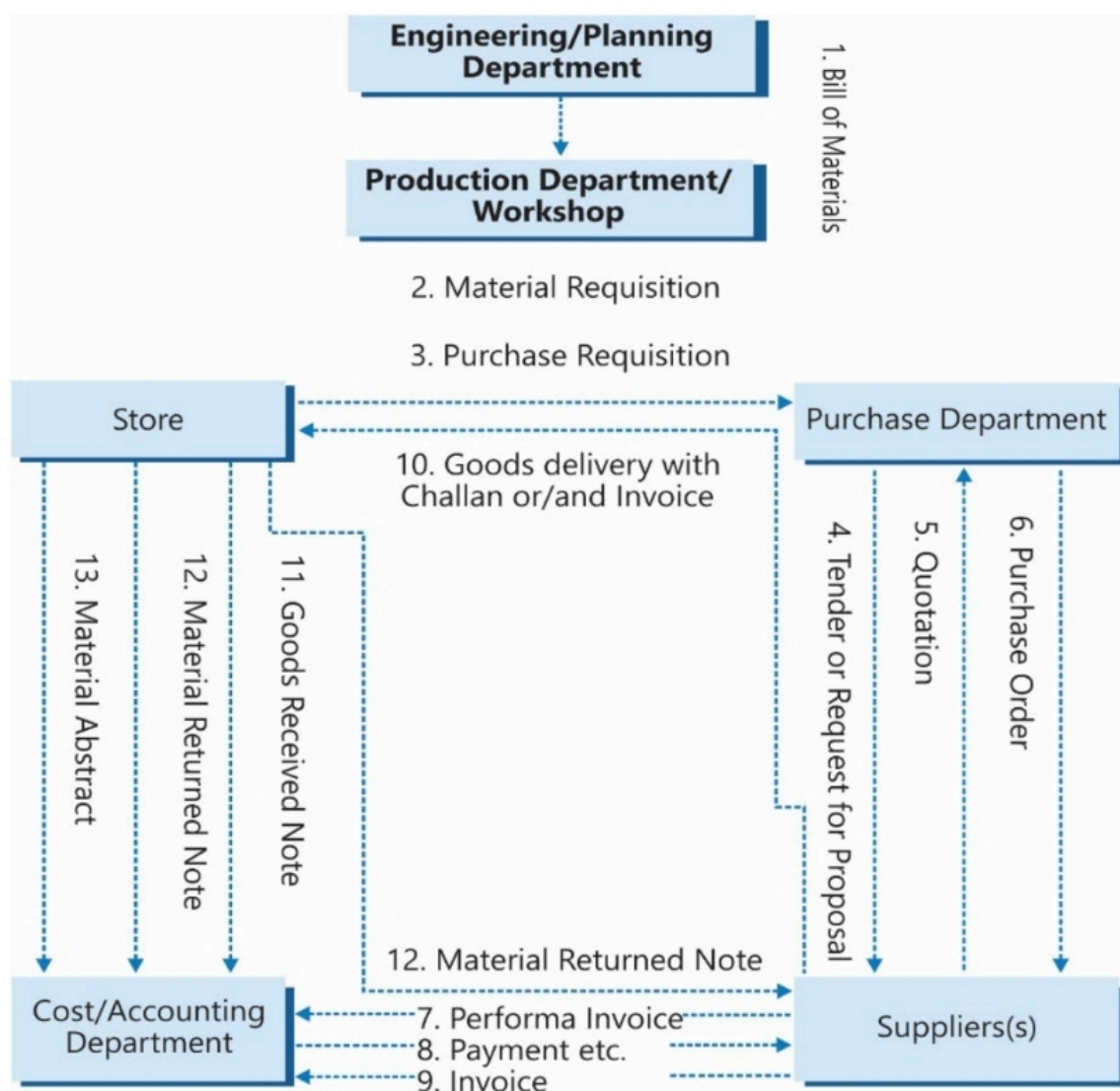
Reason:-

- └ spare part of obsolete machinery
- └ material replaced by high quality material
- └ " " " low price "
- └ Technological change etc.

* Treatment:-

- ① Dispose-off at best available price.
- ② Loss on sale of material due to writing off P/L.

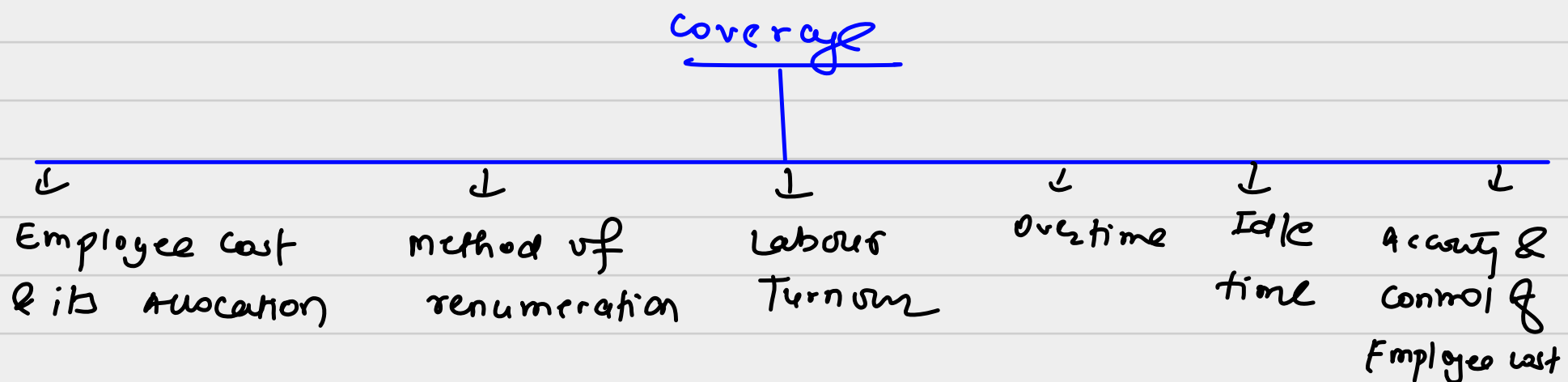
C. Residual Topics



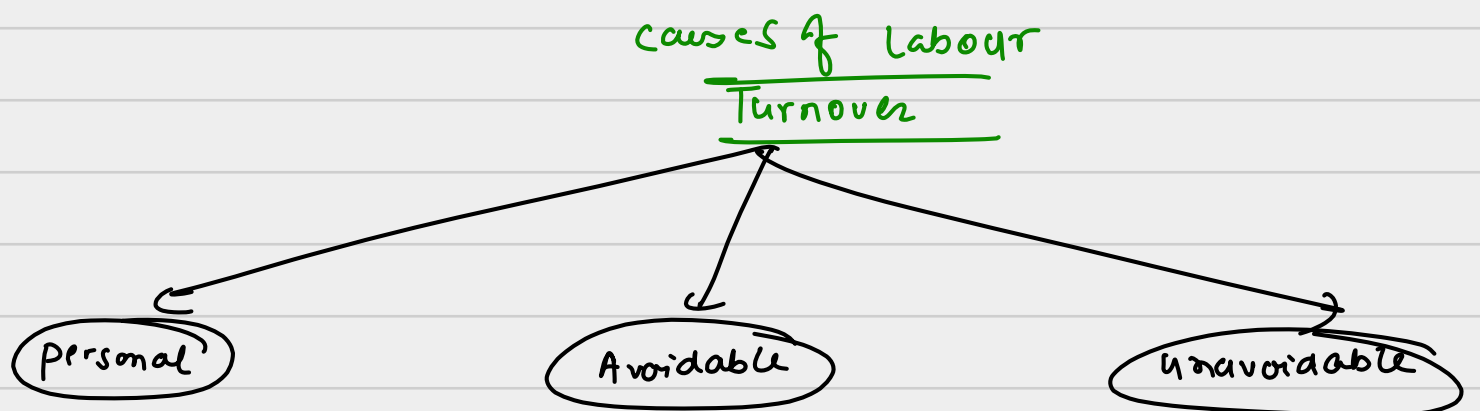
g. Bin Card vs. Store ledger

Bin Card	Stores Ledger
It is maintained by the storekeeper in the store.	It is maintained in cost accounting department.
It contains only quantitative details of material received, issued and returned to stores.	It contains information both in quantity and value.
Entries are made when transaction takes place.	It is always posted after the transaction.
Each transaction is individually posted.	Transactions may be summarized and then posted.
Inter-department transfers do not appear in Bin Card.	Material transfers from one job to another job are recorded for costing purposes.

2. Chapter:- Employee Cost & its Allocation



9. Labour Turnover



[Leaving at own will]

- ① change of job for betterment
- ② premature retirement due to ill health or old age
- ③ domestic problem & family responsibility.
- ④ Accidents

[problem on part of org that need to be taken care of:]

- ① low wages & allowance
- ② lack of training & promotional avenues.
↳ recreational & medical facilities
- ③ dis-satisfaction with job.

[obligatory on part of mgt to ask employee to leave job]

- ① Seasonal nature
- ② Shortage of RM, power supply
- ③ change in plant location
- ④ disability, making worker unfit for job.
- ⑤ disciplinary measures

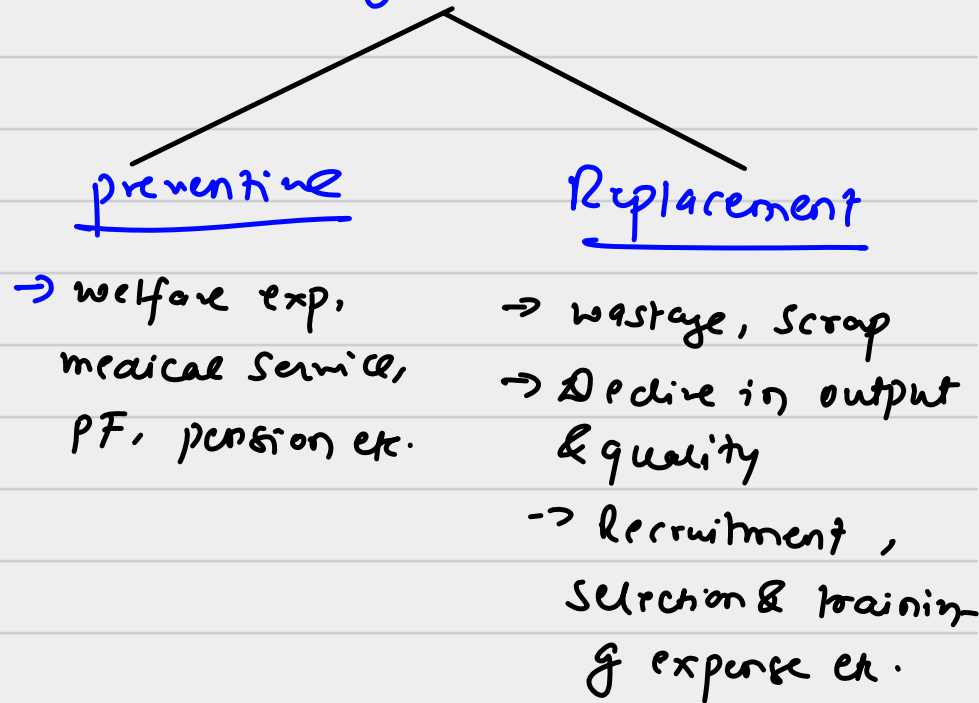
→ discontent over job & working condition.

⑦ Strained relation with mgt, Supervisor, fellow members.

b. Remedies

- Exit Interview
- Job Analysis & Evaluation
- Use of committee
- Healthy working condition
- Scientific system of recruitment, placement and promotion.

c. Cost of Labour Turnover



b- Accounting & Control of Labour Turnover

ACCOUNTING AND CONTROL OF LABOUR COST

It involves 3 activities:

1. Time keeping
2. Calculation of Payroll
3. Allocation payroll cost to dept.

Time Recording

Time Keeping

*Recording attendance & Calc. of wages

Method

(a) Manual

- Attendance register
- DISC Method

(b) Mechanical

- ① Punch Card
- ② Bio-metric

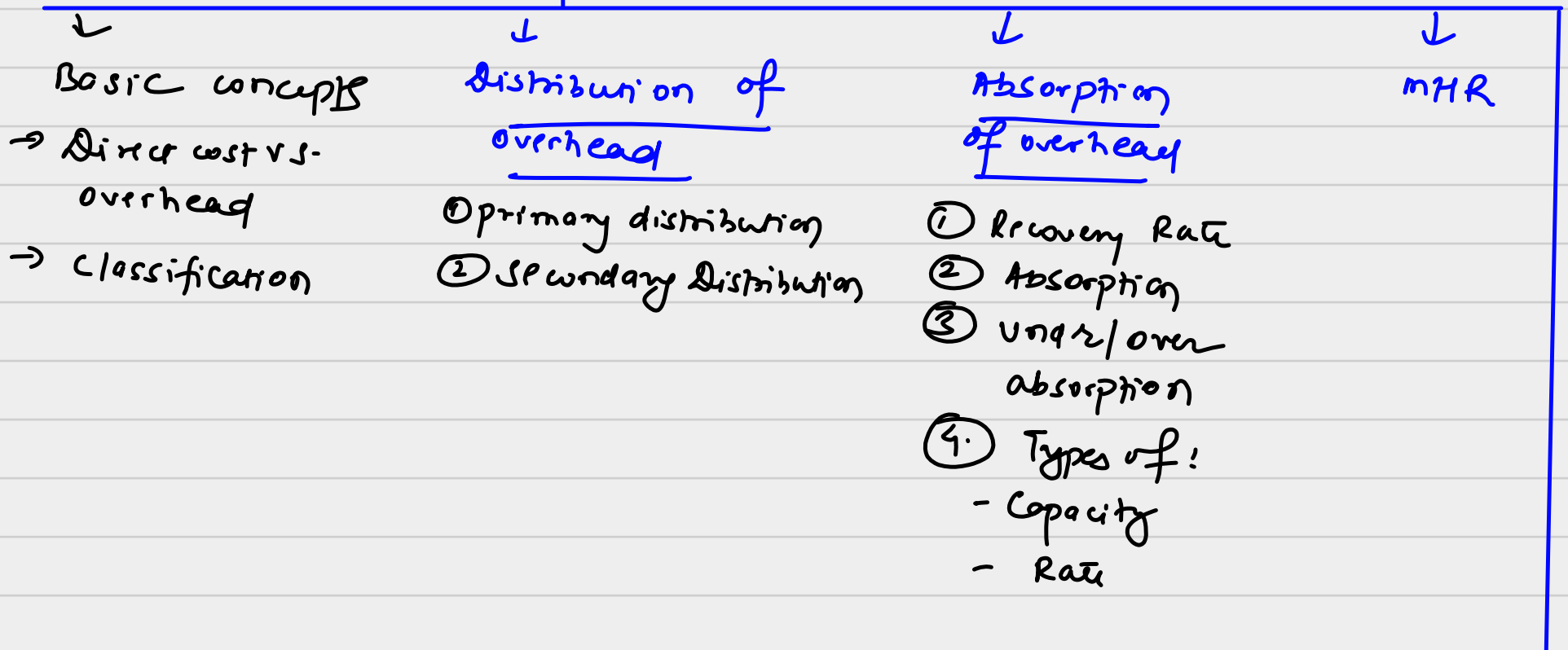
Time-Booking

* Record from utilised point of view - Cost Analysis

Method

- (a) Daily time sheet
- (b) Weekly time sheet
- (c) Job Cards

Chapter - 3 :- Overhead



Treatment of various items

a. Interest & financing charges

→ Included in total cost as separate items in cost of sale.

b. Interest on Capital

Include in cost

- ① Reward to Capital
- ② Opportunity cost factor

Excluded

- ① Depends on organization's policy
- ② Difficult to apportion.

When:- Decision making

When:- Regular product costing & profitability.

Bad debt

2 views of Authors

- ① Part of S&D off
- ② It is part of normal business

- ① Not to be included in cost (financial loss)
- ② Consider in financial acc.

d. Idle time:-

a.

Idle Time	Treatment
Normal / Unavoidable (Repair, Changeover of Job)	Use supplementary rate to recover idle capacity cost.
Abnormal/Avoidable (Power failure, R&M, Shortage, Planning, Fault, Strike)	Dr. to Costing P/L
Seasonal factor	Charge to COP by inflating overhead rate
Trade depression	Dr. to Costing P/L

e. **Training Cost:** It is overhead of Service Department – Apportioned to Production Department.

f. **Chargeable Expense:** Part of Prime Cost (Direct Expense) (e.g. Royalty, Hire Charges, Drawing & Design, Software).

g. **Insurance of Stock:** Apportioned based on Direct Material value.

h. **Packing:**

a. Primary Packing– Part of Cost of Production.

b. Secondary Packing – Selling & Distribution Overhead.

i. **Small Tools:**

View-1: Cost Charge to Department using it.

View-2: *Revalue and difference (Original Cost – Revalued value) Charge to Prodⁿ OH.

*Charge depreciation over life:

a. Factory Overhead

b. Overhead of respective department.

j. **Depreciation:**

i. Factory Overhead

ii. Apportioned to dept. based on Assets Value.

k. **Material Handling Cost:**

i. Apportioned based on physical qty. stored in factory.

ii. Store OH shall be charge to RM & Finished Goods store based on issue rate.

l. **Research & Development:**

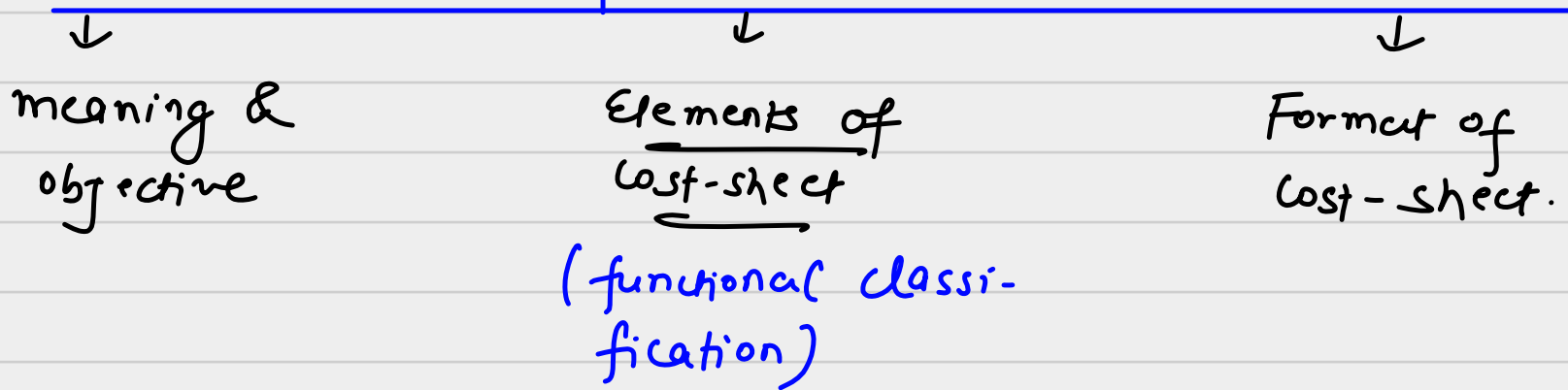
Cases	Treatment
Applied Research expense (for existing product)	Manufacturing Overhead
Basic Research Cost (continuous activity)	1. Charge to Revenue of concern dept. 2. If amt. large – Over the period.

m. **Unsuccessful Research & Development Cost:**

Cases	Treatment
Expense is normal & budgeted	Factory Overhead
If expense is not budget	Write off in P/L

Note: If research is extended for long period, some failure cost is spread over successful research

chapter:- Cost - sheet



chapter:- Activity Based Costing

Practical
Product cost as per
ABC and Absorption
costing

- Theory
- (i) Tradition Costing vs. ABC
 - (ii) Meaning of terms used.
 - (iii) Level of activities (Cost Hierarchy)
 - (iv) Functions & Cost-driver.
 - (v) Stages in Activity Based Costing

a. Cost Hierarchy or Level of activities

<u>Level of activities</u>	<u>Meaning</u>	<u>Examples</u>
a. Unit level.	Activities incurred for each unit of product	use of Indirect material, Consumables, Supplies etc.
b. Batch level	Activities incurred for batch.	Set up cost, ordering cost etc.
c. production Supportable level	Activities incurred to support production.	- product designing - part specification - technical drawings.

d. Facility level.

Activities necessary to sustain manufacturing process.

- Maintenance of plant, building
- Tax compliance
- Manager's salary etc.

b. stages in Activity Based Costing

- (i) Identify different activities
- (ii) Relate overhead to each activities
- (iii) Spread support activities to primary activities
- (iv) Determine activity cost driver
- (v) Calculate cost driver rate

Chapter:- Service Costing

- Service costing vs. product costing
- Build. Operate. Transfer Approach (BOT)
- Service Unit

- (i) Identification
- (ii) Classification

a. Service Costing vs. Product Costing

Service Costing

Product Costing

→ Services are intangible. So, no inventory of service.

→ products are tangible. So, it may have inventory.

→ use of composite cost unit

→ No such concept.

→ Employee cost constitute major element of cost

→ Material cost constitute major cost element.

→ Traceability of cost to service is difficult.

→ majority cost can be traced to product.

(majority cost includes indirect cost & support service cost.) (Direct cost.)

b. Build-Operate-Transfer Model.

- under this Model, Govt. outsource public projects to private sector.
- Private sector design, finance, construct and operate facility and after specified concession period, ownership is transferred to government.
- Approach of developing infrastructure project by private participation.

Chapter: marginal costing

1. Characteristics of Marginal Costing
2. Advantage & limitations of marginal costing

a. Characteristics of marginal costing

- (i) Total cost classified
 - fixed cost
 - variable cost
- (ii) variable cost (marginal cost) → product cost
- (iii) Fixed cost → period cost.
- (iv) valuation of WIP & finished goods → at variable cost.
- (v) price is determined with marginal cost & contribution margin.

b. Advantage

- (i) Helps in decision making.
 - make or buy, acceptance of offer etc.
- (ii) Control over Expenditure.

cost segregate $\begin{cases} \text{fixed} \\ \text{variable (can be compared with budgeted)} \end{cases}$

(III)

BEP chart

How much to produce?

ST profit planning

(IV)

show true presentation of profit

cost $\begin{cases} \text{fixed (period cost)} \Rightarrow \text{written off against profit.} \\ \text{variable (product cost)} \end{cases}$

C. limitation

(i)

Difficult to classify cost

(II)

understanding of WIP

(III)

Ignore Time factor & cost of machine used.

(IV)

Faulty valuation (usually in large contract)

Chapter :- standard costing

→ Types of standards.

→ process of standard costing

→ procedure for setting standards

→ Qty / Hr

→ Rate / price.

→ Advantage & criticism of std. costing

9. Types of standard

↓ <u>Basic std</u>	↓ <u>Current std</u>	↓ <u>Ideal std</u>	↓ <u>Normal std</u>
-----------------------	-------------------------	-----------------------	------------------------

① Std set for
base year

① Std set base on
on current condition

① Achieved only
in most favourable
condition.

① Achieved in
normal condition.

- ② Remains constant for long period.
- ③ Year to year comparison.
- ② current period variance determined.
- ② Generally, unattainable
- ② Can be achieved.

b. Process of standard costing

- i. setting of standard
- ii. Attainment of actual cost
- iii. compare actual cost with standard cost.
- iv. Investigate reasons for variance
- v. Disposition of variance. [losing PLZ]

Chapter:- Budget & Budgetary Control

- Tradition budget vs. Zero based budgeting
- Dis-advantage of ZBB.
- Budget period vs. Control period.
- programme & performance budget.
- Budgetary Control

4. ZERO BASED BUDGETING:

It is budget prepared and justified from zero and last year is not taken as based. All activities are re-evaluated each times budget is prepared.

a. Traditional Budgeting vs. ZBB

S.No.	Traditional	ZBB
1.	It is accounting Oriented.	It is decision oriented.
2.	It is based on last year budget	It is not based on last year budget
3.	It is based on incremental approach.	It is not based on incremental approach.
4.	All activities are not re-evaluated each times budget is prepared.	All activities are re-evaluated each times budget is prepared.

b. Dis-advantages of Zero Based Budgeting.

- i. It requires training to manager.
- ii. It is costly and time consuming.
- iii. It emphasis on short term rather than long term objective.
- iv. It requires more paper work and personnel.

5. BUDGET PERIOD VS. CONTROL PERIOD.

S.No.	Budget period	Control period
1.	It is period for which budget is prepared.	It is period for which interim report is prepared for corrective action.

2.	It is on quarterly, monthly, annual basis.	Period is specified by management.
3.	It may be short-term or long-term.	It is generally, short-term.

6. PROGRAMME AND PERFORMANCE BUDGET:

a. Programme budget:

It is prepared for specific activity or programme. It includes only revenue and expenses of specific programme.

b. Performance budget:

- ✓ It focus on specific performance objective.
- ✓ It relates to greater management efficiency.
- ✓ It measures progress towards short-term and long-term objectives.

3. BUDGETARY CONTROL:

a. It is end result.

b. Process:

- i. Estimate Budget
- ii. Compare with actual result
- iii. Corrective action/ remedial measure should be taken.

c. Objective:

- i. Eliminate wastage
- ii. Helps to predict future

- iii. Co-ordinate action of various department.
- iv. Corrects deviation from standard.

d. Limitation:

- i. Budget preparation is difficult task.
- ii. Future prediction is uncertain.
- iii. It is based on past data which is not relevant for changing circumstances.
- iv. Gaining co-ordination among various department is difficult task.

e. Elements:

- i. Budget center
- ii. Budget Manual
- iii. Organization chart
- iv. Budget Committee
- v. Budget Controller
- vi. Budget Key Factor
- vii. Budget Report