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Cost Sheet

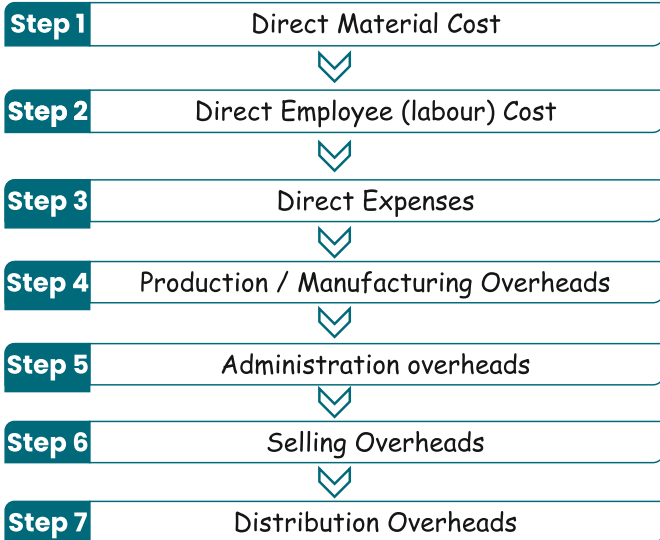
A Cost sheet / Cost statement is a document which provides detailed cost information and it shows breakup and build up of costs. This statement of cost gives total costs, cost per unit at various level of production process. One of the objectives of cost accounting system is ascertainment of cost for a cost object. The cost objects may be a product, service or any cost centre. **Ascertainment of cost includes element wise collection of costs, accumulation of the costs so collected for a certain volume or period and then arrange all these accumulated costs into a sheet to calculate total cost for the cost object.** In this chapter, a product or a service will be the cost object for cost calculation and cost ascertainment. **A Cost Sheet or Cost Statement is "a document which provides a detailed cost information."**

1.1 FORMULA / FORMAT

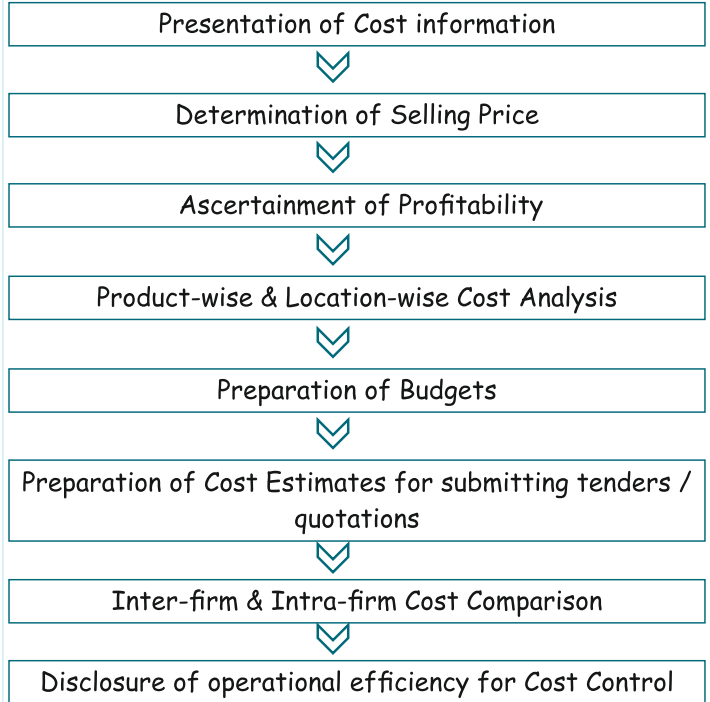
Particulars	Total Cost	Cost per unit
1. Direct Material Consumed:		
Opening Stock of Raw Material	xxx	
Add: Additions/ Purchases	xxx	
Less: Closing Stock of Raw Material	(xxx)	
	xxx	xxx
2. Direct Employee (labour) Cost	xxx	
3. Direct Expenses	xxx	
4. Prime Cost (1+2+3)	xxx	xxx
5. Add: Works/ Factory Overhead	xxx	
6. Gross Works Cost (4+5)	xxx	
7. Add: Opening WIP	xxx	
8. Less: Closing WIP	(xxx)	
9. Works/ Factory Cost	xxx	xxx
10. Add: Quality Control Cost	xxx	
11. Add: Research & Development Cost	xxx	
12. Add: Administration Overheads	xxx	
13. Less: Credit for scrap/ Misc. Income	(xxx)	
14. Add: Packing Cost (Primary)	xxx	
15. Cost of Production (9+10+11+12-13+14)	xxx	xxx
16. Add: Opening Stock of Finished Goods	xxx	
17. Less: Closing Stock of Finished Goods	(xxx)	
18. Cost of Goods Sold	xxx	
19. Add: Administration Overheads (General)	xxx	xxx
20. Add: Marketing Overheads	xxx	
Selling Overheads		
Distribution Overheads		
21. Cost of Sales (18+19+20)	xxx	xxx



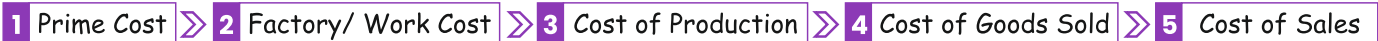
1.2 Functional Classification of Elements of Cost



1.3 Uses of Cost Sheet



2.1 Cost Heads in Cost Sheet



2.2 Prime Cost

$$\text{Direct Material Cost} + \text{Direct Employee Cost} + \text{Direct Expenses} = \text{Prime Cost}$$

Understanding the cost sheet format step by step

2.3 DIRECT MATERIAL COST

DIRECT MATERIAL CONSUMED

Cost of Direct Material Consumed

$$\text{Opening Stock of Materials} + \text{Additional Purchases} - \text{Closing Stock of Material}$$



Wood is a Direct Material for this Furniture.
(Identifiable in the product + Directly allocated to the product cost)

Example of Direct Material:

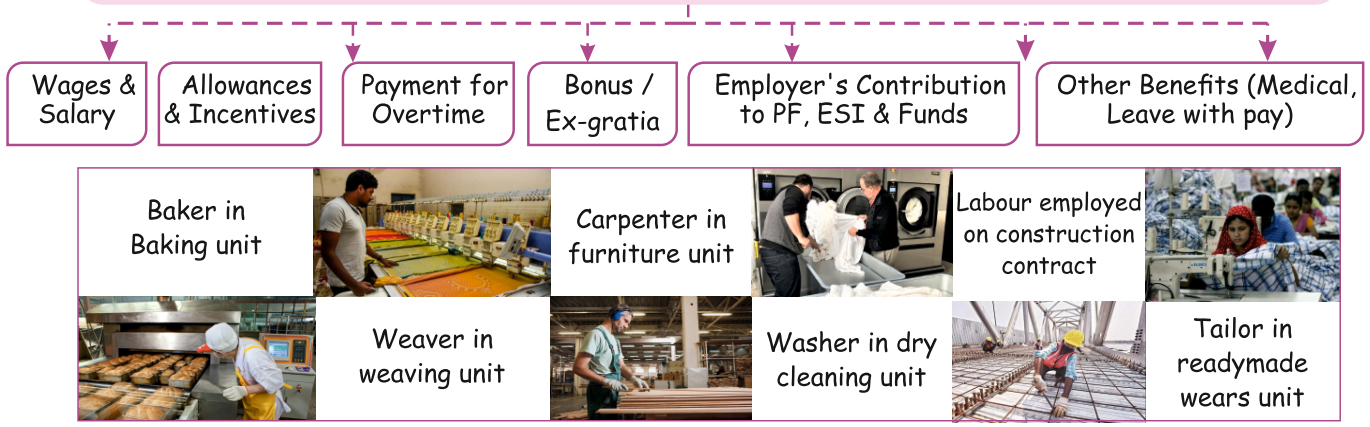
- (a) Timber in Furniture
- (b) Cloth in Garment
- (c) Plastic in Pen
- (d) Paper in Book





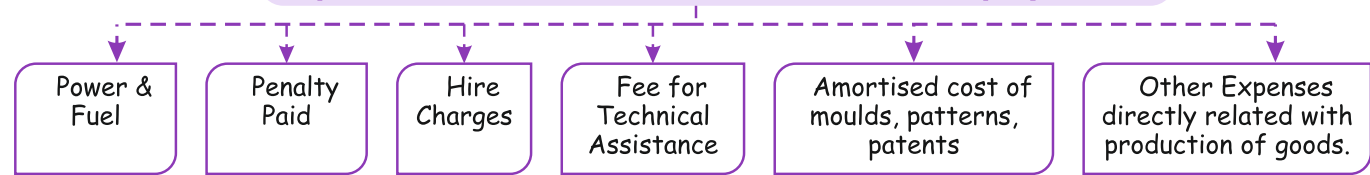
2.4 DIRECT EMPLOYEE COST

Payments to employees engaged in production of goods & provision of services



2.5 DIRECT EXPENSES

Expenses other than direct material & direct employee cost



2.6 Example of Direct Expenses

- Excise Duty based on output produced
- Job processing charges
- Royalty based on output produced
- Cost of special Moulds
- Design and hiring charges for machines

2.7 Factory / Work Cost

$$\text{Prime Cost} + \text{Factory related costs/ overheads} + \text{Opening WIP} - \text{Closing WIP}$$

2.8 Factory Overhead Includes

Consumable Stores & Spares	Depreciation of Machinery	Service Departmental Cost such as Tool Room, Engineering & Maintenance Pollution Control
Lease Rent of Production Assets	Drawing & Designing Departmental Cost	Indirect Employees Cost related with production activities
Repair & Maintenance of Plant & Machinery, Factory Building	Amortised Cost of Jigs, Fixtures & Tooling	Insurance of Plant & Machinery, Factory Building, Stock of Raw Material & WIP



2.9 Cost of Production

$$\text{Work / Factory Cost} + \text{QR ACP} = \text{Cost of Production}$$

2.10 Quality Control Cost

Quality Control Cost	Research & Development cost	Administrative Overheads	Credit for recoveries	Joint products and By-products	Packing Cost (primary)
This is the cost of resources consumed towards quality control procedures (ISO Certification)	It includes only those research and development related cost which is incurred for the improvement of process, system, product or services.	It includes only those administration overheads which are related to production. The general administration overhead is not included in production cost. Eg: Salary of Floor Supervisor.	The realised or realisable value of scrap or waste is deducted as it reduces the cost of production.	Joint costs are allocated between/among the products on a rational and consistent basis. In case of by-products, the net realisable value of by-products is deducted from the cost of production.	Packing material which is essential to hold and preserve the product for its use by the customer. Eg: For Food Delivery, Containers of restaurants are primary for customer.

$$\text{Opening Stock} + \text{Purchases} = \text{Sales} + \text{Closing stock}$$

$$\text{Opening stock} + \text{unit produced} = \text{unit sold} + \text{closing stock}$$

Valuation of Stock

$$\text{No. of units of closing stock} \times \text{Cost of Production Per unit}$$

2.11 Cost of Goods Sold

It is the cost of production for goods sold

$$\text{Cost of Production} + \text{Cost of Opening Stock of Finished Goods} - \text{Cost of Closing Stock of Finished Goods}$$

2.12 Cost of Sales

It is the total cost of a product incurred to make the product available to the customer or consumer.

$$\text{Cost of Sales} = \text{Cost of goods sold} + \text{Administrative overheads (General)} + \text{Selling overheads} + \text{Packing cost (Secondary)} + \text{Distribution overheads}$$


2.13 Examples for Inclusion in Cost of Sales:

Administrative Overheads (General)	Depreciation Maintenance of Office Building, Furniture.	Salary of administrative employees, accountants etc	Rent, Rates & Taxes	Insurance, Lighting & Office expenses	Indirect Materials, Printing & Stationery, Office Supplies etc.	Legal Charges, Audit Fees, Meeting Expenses
Selling Overheads	Salary & Wages related to sales department.	Rent, Depreciation, maintenance related to Sales Department	Advertisement, maintenance of website for online sales, market research etc.	---	---	---
Packing Cost (Secondary)	Packing material that enables to store, transport & make the product marketable	---	---	---	---	---
Distribution Overhead	Salary & Wages of employees engaged in distribution of goods.	Transport & Insurance costs related with distribution	Depreciation, Hire charges, Maintenance & Other Operating Costs related with distribution.	---	---	---

3.1 Exclusion in Cost Sheet
Abnormal Costs

Any abnormal cost, where it is material and quantifiable shall **not** form part of cost production or acquisition or supply of goods or provision of service.

- Cost on account of Pandemic (Covid - 19).
- Employee related cost due to lockdown.

Subsidy/ Grant/ Incentive

Reduced from cost objects to which such amount pertains

Penalty, Fine, Damages & Demurrage

Does not form part of cost

Interest & Other Finance Costs

Not included in cost of production. Shall be presented in the cost statement as a separate item of cost of sales.



3.2 Other Miscellaneous Points

- Do not include GST if credit available.
- Interest and finance charges paid for non-equity fund is to be included as a part of office and admin.
- If opening stock of finished goods is nil then Cost of production per unit = cost of goods sold per unit.
- Outstanding wages are to be added to direct wages.
- Salary paid to directors technical is considered as general admin.
- Do not include income tax and donation to PMNRF in the cost sheet.
- Provision for Bad Debts / Discount / Rebate

3.3 Advantages of Cost Sheet

- Provides the total cost figure as well as cost per unit of product.
- Helps in cost comparison.
- Facilitates preparation of cost estimates required for submitting tenders.
- Provides sufficient help in arriving at the figure of selling price.
- Facilitates cost control by disclosing operational efficiency.