INTRODUCTION TO COSTING — CHAPTER - 1

COST
Expense incurred in producing a product or rendering a service.

Ex:
Cost of manufacturing a product - say Table

Wood	500
Nails	50
Labour	300
Others	150
Total	1000 → Cost

COSTING
Process of ascertaining costs

COST ACCOUNTING
Collection, classification, accumulation, assignment and control of costs.

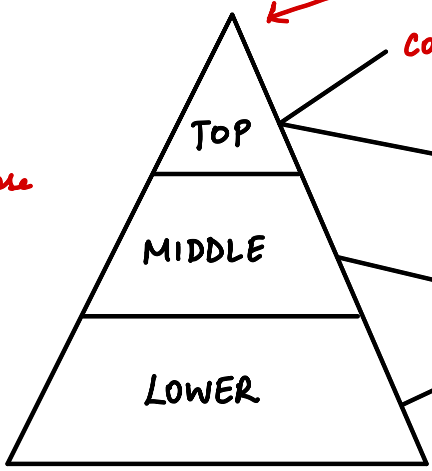
Objective:
Determining income and expense.
↓
Periodical statements for ascertaining and controlling costs
↓
Ascertainment of profitability

COST ACCOUNTANCY
→ Presentation of information for the purposes of decision making.
→ Application of cost accounting principles.
→ How cost accounting information is used for management requirements.

MANAGEMENT ACCOUNTANCY
→ Integration of principles of cost accounting and Financial Mgmt.
→ To provide info to preserve and protect the interests of the stakeholders.

OBJECTIVES OF COST ACCOUNTING
- Ascertainment of costs
- Determination of selling price
- Ascertainment of profit
- Assisting Management in Decision Making
- Cost control and Cost Reduction *

Key decisions such as
- Make or buy
- Continue or shut down
- which supplier to choose
- which payment scheme to choose for employees.
- Plant A v/s Plant B
- Product A v/s Product B
- Location A v/s Location B



COST ACCOUNTANCY
MANAGEMENT ACCOUNTANCY
} DECISION MAKING

ACCOUNTING
COST ACCOUNTING
} GROUND WORK AND BASIC ANALYSIS

* Cost Control and Cost Reduction

Cost Control

- A technique which tells the management if the costs are aligned with the Target costs or not and achieved through Managerial Action.
- Temporary savings most of the times.
- Savings in total cost or per unit cost.
- Quality maintenance is not guaranteed.
- Step 1: Set a Target
  Step 2: Investigate variances
  Step 3: Take remedial action
- Emphasis on present and past behaviour of costs.

Ex: DEPT
→ TARGET COST – ₹10,000
→ SPENDING – ₹12,000
→ VARIANCE – ₹2,000
→ INVESTIGATE REASONS
→ TAKE REMEDIAL ACTION FOR THE FUTURE

Cost Reduction

- Achievement of real and permanent reduction in the unit cost of goods manufactured and services rendered without impairing the quality of the product.
- Permanent and genuine reduction in costs.
- Savings in cost per unit only.
- Product Quality, utility and characteristics are retained.
- Not concerned with maintenance of performance standards.
- Emphasis on present and future costs.

Ex: 1 – WAGES → 10 Workers → ₹1000 → 10 units → $\frac{1000 ₹}{10 \text{ units}}$ → ₹10 pu

2 – WORKERS REPLACED BY MACHINERY → ₹500 → 10 units → $\frac{500 ₹}{10 \text{ units}}$ → ₹5 pu

↓

REAL & PERMANENT REDUCTION IN COST PER UNIT OF THE PRODUCT

SELLING

GOODS

TRADER

PURCHASES FINISHED GOODS

SELLS FINISHED GOODS

MANUFACTURER

PURCHASES RAW MATERIALS
↓
PRODUCED/MANUFACTURED/PROCESSED
↓
MAXIMUM SCOPE IN COST ACCOUNTING

SELLS FINISHED GOODS

SERVICES

↓
INTANGIBLE
↓
STILL UNDER DEVELOPMENT
↓
SERVICE COSTING

DIFFERENCE BETWEEN FINANCIAL AND COST ACCOUNTING

Ex:- 1

Financial Accounting

Material - ₹ 150000
Wages - ₹ 70,000
Other Exp - ₹ 50,000

Total Costs - ₹ 2,70,000
Total Sales - ₹ 3,00,000
Profit = 3,00,000 − 2,70,000 = 30000 ₹

profit % on sales = $\frac{30000}{300000} \times 100$ → 10 % → Profit looks satisfactory!

Cost Accounting

PARTICULARS	PRODUCT A	PRODUCT B	PRODUCT C	TOTAL
1. Material	48000	37000	65000	150000
2. Labour	15000	25000	30000	70000
3. Other Expenses	15000	18000	17000	50000
TOTAL COSTS (A)	78000	80000	112000	270000
SALES (B)	102400	108000	89600	300000
PROFIT (B) − (A)	24,400	28000	(22400)	30000
PROFIT %	23.8 %	25.9 %	–	10 %

CONCLUSIONS

- Product C is pulling down the total profitability of the organisation from products A and B.
- The mgmt needs to analyse and take a decision
- DECISION OPTIONS
  - Investigate thoroughly product C to find economies → ↓ costs of C
  - ↑ S.P. of C
  - Stop prodn of C

FINANCIAL ACCOUNTING IS A MERE POST MORTEM! COST ACCOUNTING GOES DEEPER INTO EACH ELEMENT OF COST

COST CLASSIFICATION

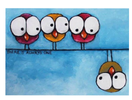
TIME

BEHAVIOUR

ELEMENTS

CONTROLLABILITY

NORMALITY



FUNCTIONALITY

OTHERS

ON THE BASIS OF TIME

HISTORICAL COST

Costs ascertained after being incurred

They relate to the happenings which have already taken place

Ex:- Actual cost of Production, cost of an asset

PAST

CURRENT COST

Relating to the PRESENT period

Ex:- Cost of Production for the current month

PRESENT

PRE-DETERMINED COST

Costs which are computed in ADVANCE

Ex:- Budgets, standard costs, Quotations

FUTURE

ON THE BASIS OF BEHAVIOUR

FIXED COST

PERIOD COSTS

DONOT DEPEND ON OUTPUT

At 0 output
FC = X

Ex:- Rent, Salaries etc

- Committed FC → UNAVOIDABLE
  - cannot be altered
  - if altered → Long term objectives of the Organisation will be hampered
  - Ex:- Rent, salaries etc
- Discretionary FC → AVOIDABLE
  - Can be altered depending on Mgmt discretion
  - Ex:- Marketing expenses, PR, Employee Training etc

VARIABLE COST

CHANGE WITH OUTPUT

At 0 output
VC = 0

Ex:- Cost of material, wages etc

SEMI-VARIABLE COST

PARTLY FIXED AND PARTLY VARIABLE

Ex:- Telephone, Internet charges, Transportation charges etc

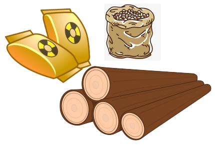
FIXED AND VARIABLE COMPONENTS NEED TO BE SEPARATED

FC remains the same in TOTAL
FC changes p.u. of output

VC remains the same p.u. of output
VC changes in TOTAL

ON THE BASIS OF ELEMENTS

MATERIAL



Raw Material used in the manufacturing process

- DIRECT
- INDIRECT

LABOUR

Efforts of Labourers

- DIRECT aka (PRODUCTION LABOUR)
- INDIRECT

EXPENSES

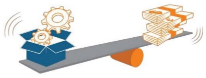
Expenses incurred other than Material and Labour

- DIRECT aka (CHARGEABLE EXPENSES)
- INDIRECT

} ON THE BASIS OF RELATION-SHIP

Direct Material + Direct Labour + Direct Expenses → $\boxed{\text{PRIME COST}}$

Indirect Material + Indirect Labour + Indirect Expenses → $\boxed{\text{OVERHEADS}}$



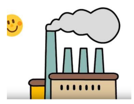
DIRECT COSTS can be identified on a per unit basis. ALWAYS ALLOCATED

INDIRECT COSTS cannot be identified on a per unit basis
↓
ALWAYS APPORTIONED

Ex:- A CALCULATOR

- DISPLAY 
- BUTTONS 
- BATTERIES 

→ DIRECT MATERIAL

- RAMU - A WORKER FOR ASSEMBLY OF CALCULATORS  → DIRECT LABOUR
- OFFICE SUPERVISOR  → INDIRECT LABOUR
- FACTORY RENT  → INDIRECT EXPENSES
- ROYALTY FOR USING BRAND NAME (CASIO) → DIRECT EXPENSES
- CLEANING SOLUTION  → INDIRECT MATERIAL

ON THE BASIS OF CONTROLLABILITY

CONTROLLABLE COSTS

Influenced and controlled by Managerial Action.

Ex:- Rental agreements are controllable in the hands of the CEO but not in the hands of the Factory Manager.

UNCONTROLLABLE COSTS

Cannot be controlled by Managerial Action

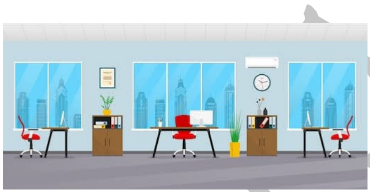
Ex:- Wastage of material during production can be controlled by the Factory workers but is not controllable in the hands of the CEO.

ON THE BASIS OF FUNCTIONALITY

FOH

- Factory Rent
- Factory Lighting
- Factory Heating
- Depreciation on Factory Equipment
- Factory workers salaries
- Production Expenses

+



AOH

- Office Rent
- Office salaries
- Office Lighting
- Printing and Stationery
- Depreciation on office Eq.

DISTRIBUTION

$\underbrace{\text{SOH/DOH}}_{\text{S\&D OH}}$

- Salesmen Salaries
- Salesmen Commission
- Marketing Expenses
- Transportation Expenses
- Travelling Exp of salesmen
- Depreciation on Delivery Vans

ON THE BASIS OF FUNCTIONALITY

FACTORY OVERHEADS [FOH]
Expenses incurred in the Factory
- If Indirect Material and Labour are given in the Question – To BE ASSUMED AS FOH
- DRAWING OFFICE SALARIES - (PART OF FOH)
- FOH aka PRODUCTION OH / WORKS OH

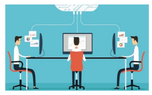
ADMINISTRATION OVERHEADS [AOH]
Expenses incurred in the office
- General Exp – PART OF AOH
- AOH aka OFFICE OH
- COUNTING HOUSE SALARIES – AOH

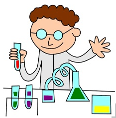
SELLING OVERHEADS [SOH]
Expenses incurred towards selling the product

DISTRIBUTION OVERHEADS [DOH]
Expenses incurred towards distribution of the product

S&D OH

RESEARCH & DEVELOPMENT OVERHEADS [R&D OH]
Expenses incurred towards research and development





PRODUCT RELATED
- OLD COST SHEET FORMAT – Part of DIRECT EXPENSES
- NEW COST SHEET FORMAT

NOT PRODUCT RELATED
Related to:
- Factory process – FOH
- office process – AOH
- selling / Distribution – S&D OH

Quality Control
Testing
Research & Development
KEPT SEPARATELY
ADDED TO NET FACTORY COST TO FORM PART OF COST OF PRODUCTION

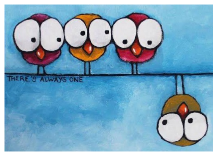
Usually Office OHs are considered to be Fixed.
Selling OH's are considered to be variable.
Factory OH's are considered to be Fixed and Variable
If Question is silent about Nature of OH's.

TREATMENT OF AOH and S&DOH

If Question is Silent
- AOH & S&D OH → AOH
- S&DOH & AOH → S&D OH

If question specifies
- AOH & S&DOH function of Production → AOH
- AOH & S&DOH function of sales → S&D OH
- S&DOH & AOH function of production → AOH
- S&DOH & AOH function of Sales → S&D OH

ON THE BASIS OF NORMALITY

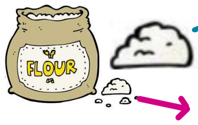


NORMAL COSTS

Normally incurred at a given level of output in Normal Conditions.

Always charged to Production.

Ex :- Evaporation of Petrol



→ ABNORMAL LOSS

→ NORMAL LOSS

ABNORMAL COSTS

Costs over and above normal costs. They are Irregular and Unexpected. Abnormal costs are incurred at a given level of output under Normal Conditions.

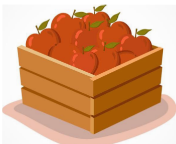
↓

Always charged to Costing P&L A/c.

Never charged to Production as they are irregular and abnormal in nature.

Ex :- A Box contains 12 Apples [Normal loss of apples - 2]

COST OF 12 APPLES → ₹120

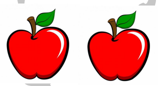


COST PER APPLE

$= \frac{₹120}{12} = ₹10/- \text{ pu}$

TOTAL ROTTEN APPLES → 5 APPLES

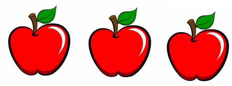
2 APPLES
NORMAL LOSS
(ROTTEN)



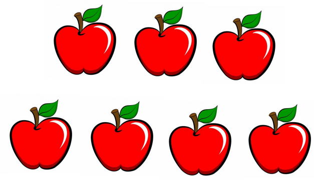
↓

SINCE THIS WAS BOUND TO HAPPEN, THIS COST WILL BE BORNE BY THE REMAINING UNITS

3 APPLES
ABNORMAL LOSS
(ROTTEN)



REMAINING APPLES
↓
7 APPLES
GOOD UNITS



HENCE NEW COST PER APPLE ;

$= \frac{120₹}{12-2} = \frac{120}{10} = ₹12 \text{ pu}$ ↑

INFLATED COST

CHAGED TO PRODUCTION

Cost of Good units → 7 × ₹12 = ₹84/-

Cost of Abnormal Loss → 3 × ₹12 = 36/-

CHARGED TO COSTING P&L A/c

OTHER COST CLASSIFICATION

- PRODUCT COST VS PERIOD COST
- OPPORTUNITY COST
- EXPLICIT COST VS IMPLICIT COST
- DIFFERENTIAL COST
- SUNK COST
- CONVERSION COST
- MARGINAL COST

PRODUCT COST V/S PERIOD COST

PRODUCT COSTS
↓
Assigned to Products and included in INVENTORY VALUATION

PERIOD COSTS
↓
charged as expenses against revenues of the period in which they are incurred.
NOT included in INVENTORY VALUATION

ABSORPTION COSTING → ALL COSTS ARE PRODUCT COSTS

MARGINAL COSTING → VARIABLE COSTS — PRODUCT COSTS
→ FIXED COSTS — PERIOD COSTS

OPPORTUNITY COST

COST OF THE NEXT BEST ALTERNATIVE
↓
Used when there are Options

Ex:- Salary in A ltd v/s starting own Business

Opportunity cost of starting ones own Business is letting go of salary in A ltd.


A LTD


OWN BUSINESS

EXPLICIT v/s IMPLICIT COST

Explicit cost
↓

AKA

ACCOUNTING COSTS
OR
OUT OF POCKET COSTS

↓

INVOLVE ACTUAL OUTFLOW OF MONEY

↓

CAN BE FOUND IN BOOKS OF ACCOUNTS

↓

Ex:- Rent paid, Cost of Raw Material used, Salaries etc

Implicit cost
AKA

IMPUTED COSTS
OR
NOTIONAL COSTS
OR
NON ACCOUNTING COSTS

↓

DO NOT INVOLVE ACTUAL OUTFLOW OF CASH

↓

NOT FOUND IN BOOKS OF ACCOUNTS [COST OF OWN FACTORS OF PRODUCTION]

↓

BASED ON SUBJECTIVE ESTIMATION

↓

USED FOR THE PROCESS OF DECISION MAKING

Ex:- Use of own building for business - Rent is determined on subjective estimation and used in Cost Accounting.

DIFFERENTIAL COST

↓

CHANGE IN COST DUE TO CHANGE IN THE LEVEL OF ACTIVITY.

INCREASE IN COST		DECREASE IN COST
↓		↓
INCREMENTAL COST		DECREMENTAL COST

Differential costs maybe due to both changes in fixed and variable costs

EXAMPLE :

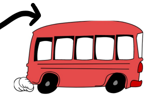
COSTS	100 UNITS	1000 UNITS
TOTAL V.C. (@ ₹2 pu)	₹ 200	₹2000
TOTAL F.C.	₹1000	₹ 1000
ADDITIONAL F.C.	-	₹ 500
TOTAL COSTS	₹ 1200	₹ 3500

₹ 2300/-
DIFFERENTIAL COST

SUNK COST

COST WHICH IS ALREADY INCURRED AND IRRELEVANT FOR DECISION MAKING

EXAMPLE



₹ 40

@ PLACE A

SUNK COST

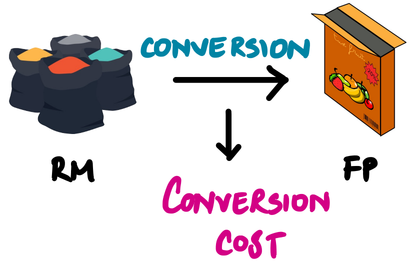
BREAKS DOWN AT JUNCTION B

₹ 60 OR ₹30/-

JUNCTION C

CONVERSION COST

COST OF CONVERTING RAW MATERIAL TO FINISHED PRODUCT.



DOES NOT INCLUDE THE COST OF RAW MATERIAL.

CONVERSION COST = LABOUR + OTHER EXPENSES

EXAMPLE

COST OF GIFT WRAPPING
⇓

COST OF GIFT WRAPPER

~~COST OF GIFT~~

MARGINAL COST

COST INCURRED IN PRODUCING ONE ADDITIONAL UNIT

$MC = \frac{\Delta TC}{\Delta Q}$

↓

Like Variable cost

EXAMPLE

COST	100 UNITS	101 UNITS
VARIABLE COST (@ ₹2 pu)	₹ 200	₹ 202
FIXED COST	₹ 1000	₹ 1000
TOTAL COST	₹ 1200	₹ 1202

MARGINAL COST $= \frac{1202 - 1200}{101 - 100}$

$\left(\frac{\Delta TC}{\Delta Q}\right) = ₹ 2$ pu $\cong$ V.C.

	PRIME COST	CONVERSION COST	FACTORY COST
DM	✓	✗	✓
DL	✓	✓	✓
DE	✓	✓	✓
FOH	✗	✓	✓

ADDITIONAL POINTS TO BE NOTED

1 ABNORMAL LOSS
- To be removed from the Cost sheet.
- To be transferred to Costing P&L A/c.
- Scrap from Abnormal loss to be adjusted with loss and then transferred to Costing P&L A/c.

2. NORMAL LOSS
- Cost of Normal Loss to be borne by Good UNITS.
- Cost of Good UNITS gets INFLATED.
- Scrap proceeds arising due to Normal loss shall be deducted from Total Cost so that Total Cost associated with loss comes down.

3. PACKING EXPENSES

PRIMARY PACKING
BASIC
- OLD COST SHEET FORMAT
  - Made by Organisation → DIRECT MATERIAL
  - Purchased from Third Party → DIRECT EXPENSE
- NEW COST SHEET FORMAT → Kept Separately in the Cost Sheet → Part of Cost of Production

SECONDARY PACKING
NON ESSENTIAL - TO ENHANCE APPEAL
→ PART OF S&D OH ALWAYS

If Question does not state whether packing is primary or secondary it is assumed to be PRIMARY PACKING.
This is because some products may not have secondary packing.

EXAMPLES

PRIMARY PACKING

SECONDARY PACKING

4. STOCK

RAW MATERIAL

- OPENING STOCK
- CLOSING STOCK

WORK-IN-PROGRESS


- OPENING STOCK
- CLOSING STOCK

FINISHED GOODS

- OPENING STOCK ✓
- CLOSING STOCK ✓

Raw Material and Work-in-Progress (Opening and Closing Stock): NO COMPUTATION AS IT WILL BE GIVEN IN THE PROBLEM

Finished Goods (Opening and Closing Stock): TO BE COMPUTED

- Opening Stock → VALUED AT PREVIOUS YEAR'S COST OF PRODUCTION
  ↓
  If Previous Years Cost of Production is not given then opening stock of finished goods can be valued at current years Cost of Production.
- Closing Stock → VALUED AT CURRENT YEAR'S COST OF PRODUCTION

VALUATION OF STOCK [EXAMPLE]

- Opening Stock → 100 units @ ₹1800
- Units produced → 1000 units @ ₹ 20 pu → ₹ 20,000
- Units Sold → 900 units
- Closing Stock → 200 units (b/f) → VALUE ?

UNITS AVAILABLE FOR SALE
1100 UNITS

(LIFO IS IGNORED)

FIFO

900 UNITS (UNITS SOLD) → OPN STK – 100 UNITS; GOODS PRODUCED – 800 UNITS

COMPUTATION OF VALUE

100 units @ ⟶ ₹1800
800 units @ ₹20 pu ⟶ ₹ 16000
COST OF SALES ₹ 17,800

Units in Closing Stock (out of new units produced)
200 units x ₹20 = ₹4000

WEIGHTED AVERAGE

Units available for Sale

1000 units @ ₹20 ⟶ ₹ 20,000
100 units @ ⟶ ₹ 1,800
1100 units @ ⟶ ₹ 21,800

Cost Per unit = $\frac{21,800}{1100}$ = ₹ 19.82/-

COMPUTATION OF VALUE

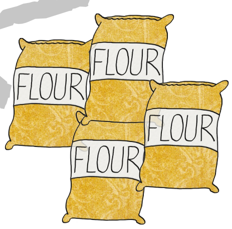
COST OF SALES → 900 units x ₹19.82 = ₹ 17838

CLOSING STOCK → 200 units x ₹19.82 = ₹ 3964

ADDITIONAL POINTS

- If Question does not specify which method to use, use FIFO.
- If Question specifies which method to use, use the given method.
- EXAMPLE





FLOUR DRUM

On using flour it is impossible to say from which batch it was used. Hence Weighted average method of Valuation can be used in such cases.

5. EXPENSES / INCOMES NOT CONSIDERED IN COST ACCOUNTING

- PURELY FINANCIAL CHARGES
- APPROPRIATIONS OF PROFITS
- WRITING OFF OF FICTITIOUS ASSETS
- PURELY FINANCIAL INCOMES
- ABNORMAL GAINS & LOSSES

PURELY FINANCIAL CHARGES → Loss on sale of Fixed Assets, Loss on investments, Discounts on shares, Deb, Interest on Bank Loan*, Expenses on raising Capital

APPROPRIATIONS OF PROFITS → Donation, Charities, Taxes on Incomes, Dividends, Transfer to Reserves, Prov. for Bad debts*

WRITING OFF OF FICTITIOUS ASSETS → Preliminary exp written off, underwriting commission etc

PURELY FINANCIAL INCOMES → Rent Receivable, Profits on sale of Fixed Assets, Interest on bank Deposits*, Dividend Received etc

ABNORMAL GAINS & LOSSES → Transferred to Costing P & L A/c

*** DISPUTED ITEMS**

Can be considered as purely Financial charges / Financial Incomes OR

Can be considered in Cost Accounting if assumed to be directly associated with the product.

A SEPARATE NOTE TO BE GIVEN IN RELATION TO THESE ITEMS MENTIONING METHOD OF TREATMENT

DISPUTED ITEMS

- If considered Financial Charges / Incomes
  ↓
  Ignored in COST ACCOUNTING
- If considered in Cost Accounting,
  ↓
  TO BE PUT UNDER RESPECTIVE HEAD IN COST SHEET

6. DISCOUNT

DISCOUNT RECEIVED

- CASH DISCOUNT ↓ Ignored ↓ NOT PART OF COST ACCOUNTING
- TRADE DISCOUNT ↓ DEDUCTED FROM PURCHASE PRICE } PART OF LANDED COST OF MATERIALS

DISCOUNT ALLOWED

- CASH DISCOUNT ↓ Ignored ↓ NOT PART OF COST ACCOUNTING
- TRADE DISCOUNT ↓ DEDUCTED FROM SALES OR SHOWN AS PART OF S & DOH } →

GROSS SALES
(-) Trade discount
NET SALES

CASH DISCOUNT → on prompt payment

TRADE DISCOUNT → on bulk purchases

COST SHEET FORMAT (OLD)

Opening Stock of Raw Material (DM)
(+) Purchases (DM)
(+) Expenses incidental in bringing material to stores
(-) closing stock of Raw Material (DM)

COST OF DIRECT MATERIAL CONSUMED
(+) Direct Wages
(+) Direct Expenses (Chargeable Expenses)

PRIME COST
(+) Factory Overheads
(+) Opening stock of WIP
(-) closing stock of WIP

FACTORY COST / WORKS COST
(+) Administration Overheads

COST OF PRODUCTION (COP)
(+) Opening stock of finished goods

COST OF GOODS AVAILABLE FOR SALE
(-) Closing Stock of Finished Goods

COST OF GOODS SOLD (COGS)
(+) Selling and Distribution Overheads

COST OF SALES (COS)
(+) Profit

SALES

COST

- DIRECT COST
  - DM
  - DL
  - DE
- INDIRECT COST
  - FOH
  - AOH
  - S&D OH

DM + DL + DE = PRIME COST

PRIME COST + FOH = FACTORY COST

FACTORY COST + AOH = COST OF PRODUCTION

COST OF PRODUCTION + S&D OH = COST OF SALES

COST OF SALES
+
PROFIT
⇓
SALES

COST SHEET FORMAT (NEW)

Opening Stock of Raw Material (DM)
(+) Purchases (DM)
(+) Expenses incidental in bringing material to stores
(-) closing stock of Raw Material (DM)

COST OF DIRECT MATERIAL CONSUMED
(+) Direct Wages
(+) Direct Expenses (Chargeable Expenses)

PRIME COST
(+) Factory Overheads
(+) Opening stock of WIP
(-) closing stock of WIP

FACTORY COST / WORKS COST
(+) Quality Control Cost
(+) Research and Development Cost
(+) Administration OH (relating to Production)
(-) Recovery of Scrap
(+) Packing Cost (Primary)

COST OF PRODUCTION (COP)
(+) Opening Stock of finished goods

COST OF GOODS AVAILABLE FOR SALE
(-) closing stock of finished goods

COST OF GOODS SOLD (COGS)
(+) AOH – General Expenses
(+) Selling and Distribution Overheads

COST OF SALES (COS)
(+) Profit

SALES

No clarity on whether this cost is related to Factory or Admin OHs. Hence it is kept separately.

Only related to Production – part of COP.

Kept separately. This was part of DM/DE under old format.

This includes dep/maintenance of machines, buildings, furniture etc of Corporate and General Management, Salaries of General admin employees, accountants, directors etc, Rent, insurance, lighting, office expenses etc.

TREATMENT OF AOH

- OLD COST SHEET
  - All AOH added to Factory cost to arrive at Cost of Production
- NEW COST SHEET
  - RELATED TO PRODUCTION
    - Absorbed on the basis of No. of units Produced
  - OTHERS
    - Treated like S&D OH
    - Absorbed on the basis of No. of units sold

PARAMETERS OF COST EXPRESSION

COST PERIOD

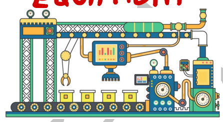
PERIOD FOR WHICH COSTS ARE ACCUMULATED
Ex:- Week, Month, Year etc.

COST CENTER

LOCATION

PERSON

EQUIPMENT



OR

SMALLEST SEGMENT FOR WHICH COST MAY BE ACCUMULATED

EXAMPLE : Delivery Van

Very Important for Cost ascertainment and control

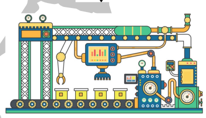
COST UNIT

TYPES

PERSONAL V/S IMPERSONAL COST CENTER

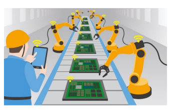
A person

Location, Equipment, Segment



PRODUCTION V/S SERVICE COST CENTER

Where RM is converted to FG.



Ancillary to Production Cost center

Ex:- Maintenance dept, General Services & admin dept etc.

OPERATION V/S PROCESS COST CENTER

OPERATION V/S PROCESS

A PROCESS IS A SET OF OPERATIONS

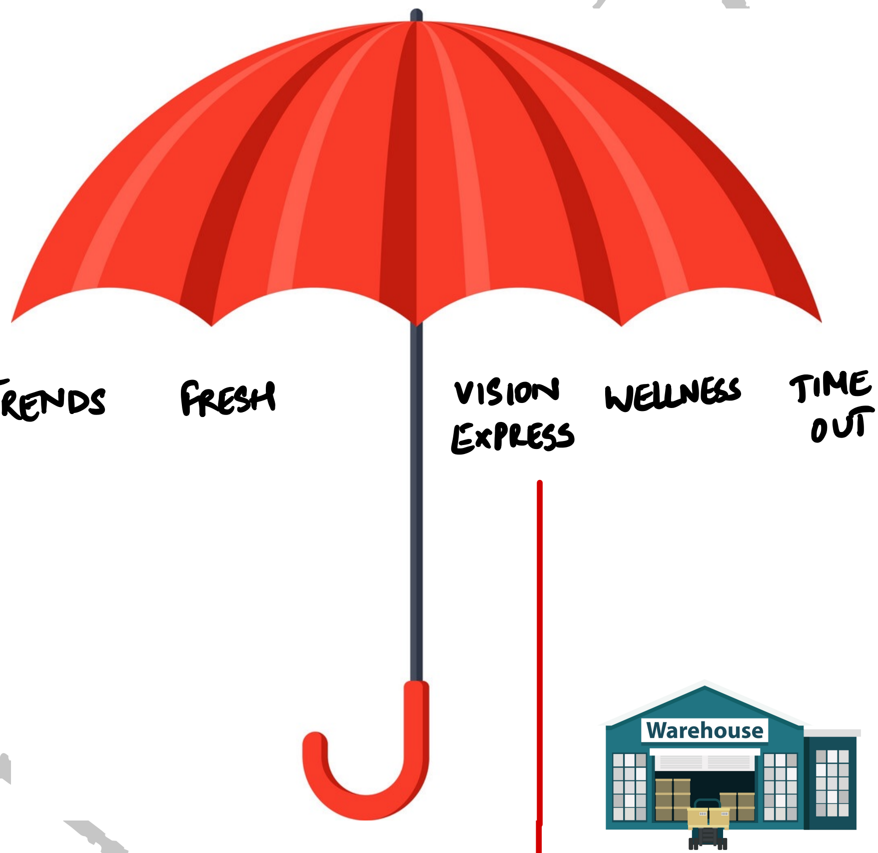
Ex:- BREAD MANUFACTURING
step 1:- Mixing Ingrediants
step 2:- Fermentation
step 3:- Shaping
step 4:- Bench Rest
step 5:- Scoring
step 6:- Baking

TYPES OF RESPONSIBILITY CENTERS

- **COST CENTERS** → Records Cost
- **REVENUE CENTERS** → Incharge of Recording Revenue
- **PROFIT CENTERS** → Incharge of showing Profits
- **INVESTMENT CENTERS** → Incharge of making Investments

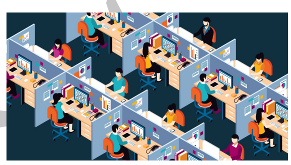
EXAMPLE

RIL UMBRELLA



TRENDS FRESH VISION EXPRESS WELLNESS TIME OUT

PROFIT CENTERS
↓
Records both costs and Revenue
↓
Created for decentralisation of operations.



HEAD OFFICE → HR Team, Finance Team, Logistics Team, Marketing Team, Audit Team, IT Team

WAREHOUSE

STORES → A, B, C . . . . .

COST CENTERS
↓
ACCUMULATION OF COSTS

REVENUE CENTERS

METHODS AND TECHNIQUES OF COSTING

Application of same principle differently

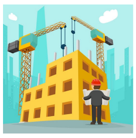
Application of different principles

SINGLE / OUTPUT COSTING


JOB COSTING


BATCH COSTING

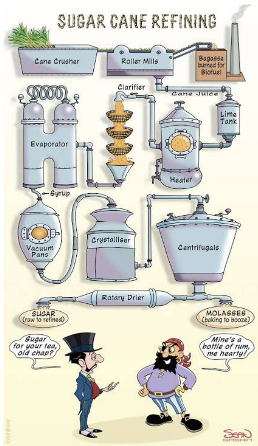

CONTRACT COSTING



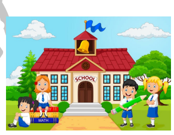

PROCESS COSTING

JOINT PRODUCT AND BY PRODUCT COSTING



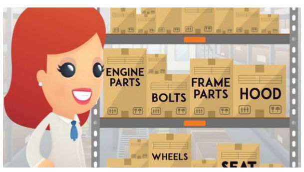


OPERATING COSTING



MULTIPLE COSTING

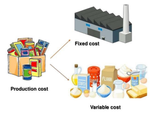




UNIFORM COSTING

When every firm in the given industry decides to follow a particular technique.

ABSORPTION COSTING



All costs are charged to Production whether Fixed or Variable.

STANDARD COSTING

Costs are predetermined and are called as Standard costs. They are then compared with actuals to determine variances.

MARGINAL COSTING

All variable costs are charged to Production. Fixed costs are period costs and charged to Costing P&L a/c.

DIRECT COSTING

Only Direct Costs are charged to the product. Indirect costs are period costs.

POST COSTING

Cost is only ascertained after Production is completed.