



IMPORTANT FORMULAS AND TREATMENT OF VARIOUS ITEMS.

CHAPTER - 1

COST SHEET

TREATMENT OF VARIOUS ITEMS

1. Treatment of Interest on Capital:

It will be presented in the cost statement as a separate item of cost of sales

- **2. GST:** GST is paid on inter-state and intra-state sale and collected from the buyers: • It is excluded from the cost of purchase if credit for the same is available.

- • Unless mentioned specifically it should not form part of cost of purchase

- **3. Treatment of Stores Overheads:** They are treated as a part of factory overheads and are charged to various production and non-production departments on the basis of service received by each department.

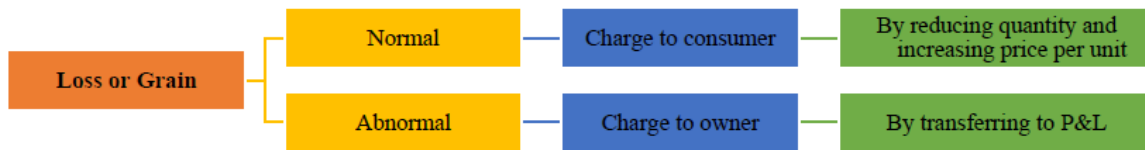
- **4. Treatment of Packing Expenses:** Primary packing is a part of the production cost e.g., packing of chemicals and medicines etc. and should be included in the production cost of the product.
- Secondary packing is a part of the selling and distribution cost. It is required while selling/transferring the product and for its safe delivery to the customer. Such expenses are charged to selling and distribution overheads.

- **5. Treatment of bad debts:** • Some authors believe that bad debts are financial losses and therefore should not be included in the cost of a particular product or job.

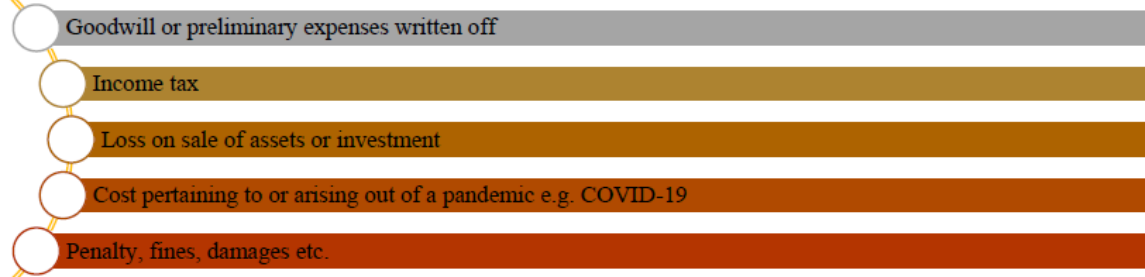
- • Another view is that, bad debts are a part of selling and distribution overheads, especially where they arise in the normal course of trading. Therefore they should be treated in cost accounts in the same way as any other selling and distribution expenses.

IMPORTANT HIGHLIGHTS OF THE CHAPTER

❖ Points to Remember (PTR)



(A) Certain expenses not appear in cost sheet:



(B) Work = Factory

Work Overheads = Factory Overheads

Work Cost = Net Factory Cost

(C) Cost of goods available for sale = Opening stock of FG + Cost of Production

(D) Cost of goods processed during the period = Opening stock of WIP + Gross Factory Cost.

❖ Administration Overheads

If administration overheads is _____ % of NFC

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or

If administration overheads is _____ per unit produce then in both situation consider them as related to production.

❖ Conversion Cost

It is the cost to convert raw material into finished goods. It is sum total of direct labour, direct expenses and factory overheads.

❖ Valuation of Stock

Stock can be valued either on FIFO basis or LIFO basis or Weighted average method. Unless otherwise provided FIFO method will be used for valuation of stock.

❖ According to FIFO Method,

Value of cl. stock of raw material = $\frac{\text{Amount of raw material purchased}}{\text{Raw material purchase quantity}} \times \text{Cl. stock raw material units}$

Value of closing stock of finished goods = $\frac{\text{Cost of Production}}{\text{Units produced}} \times \text{Closing stock finished goods units}$

❖ According to Weighted Average Method,

Value of cl. stock of raw material = $\frac{\text{RM purchase} + \text{Op. Stock of RM}}{\text{RM purchase units} + \text{Op. stock RM units}} \times \text{Cl. stock raw mat. units}$

Value of closing stock of finished goods = $\frac{\text{Cost of Production} + \text{Op. stock FG}}{\text{Units produced} + \text{Op. stock FG units}} \times \text{Closing stock FG units}$

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	Total VC	Total FC
Quantity Effect	YES	NO
Price Effect	YES	YES

Relation between.

- (A) Quantity and Variable cost – Direct Relation
- (B) Price and Variable cost – Direct Relation
- (C) Price and Fixed cost – Direct Relation
- (D) Wages and Efficiency – Inverse Relation
- (E) Efficiency and Output – Direct Relation

Unless otherwise provided, following points are to be assumed:

- (a) VC per unit will remain same.
- (b) Total FC will remain same.
- (c) All direct cost are considered to be variable in nature.
- (d) All overheads are considered to be fixed in nature.

CHAPTER - 2

ACTIVITY BASED COSTING

PORTANT HIGHLIGHTS OF THE CHAPTER

Cost Pool

It is the total cost of an activity.

Cost Driver

It is the base due to which cost changes.

Steps in ABC

- (A) Identify different activities
- (B) Identify overheads related to activities
- (C) Identify cost drivers
- (D) Calculate activity cost driver rate (ACDR)

❖ Steps in ABC

- (A) Identify different activities
- (B) Identify overheads related to activities
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$$\text{ACDR} = \frac{\text{Budgeted Overheads of activity}}{\text{Budgeted Cost Driver}}$$

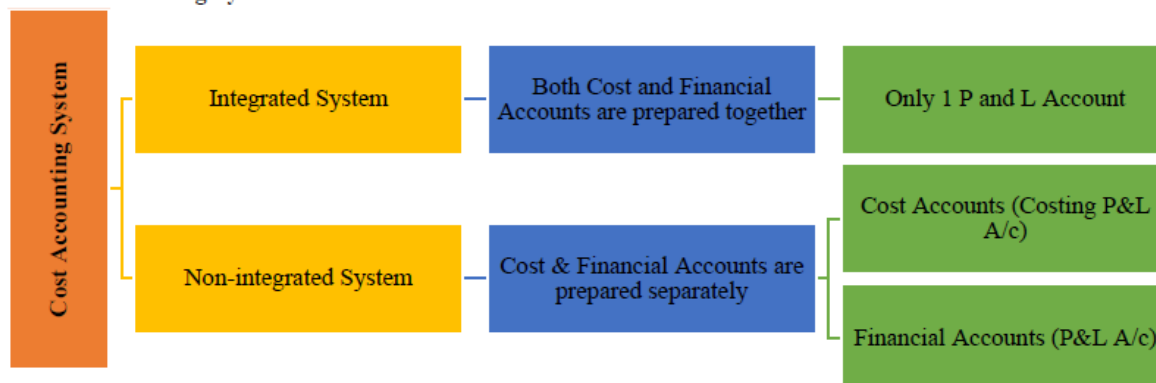
- (E) Recover overheads based on ACDR

CHAPTER - 3

COST ACCOUNTING SYSTEM

IMPORTANT HIGHLIGHTS OF THE CHAPTER

❖ Cost Accounting System



❖ **Points to Remember (PTRs)**

- (A) In case of no information then use non-integrated method
- (B) Treatment of Overheads
 - Transfer to P&L A/c - If due to factory inefficiency
 - Show as Balance c/d - If seasonal nature
 - Unless otherwise provided
 - (I) If balance b/d of OHs is given than show closing as balance c/d
 - (II) If no balance b/d than show closing as either P&L or balance c/d by giving note.

CHAPTER - 4 SERVICE COSTING

IMPORTANT HIGHLIGHTS OF THE CHAPTER

- ❖ **Cost Unit in case of Trucks or lorries**
 - (A) **Absolute Ton-km** = Actual kms × Actual tons
 - (B) **Commercial Ton-km** = Actual kms × Average tons
- ❖ **Effective Cost Unit** = Total units – Normal loss units
 *Strike is an abnormal loss so shouldn't be deducted from effective cost unit.

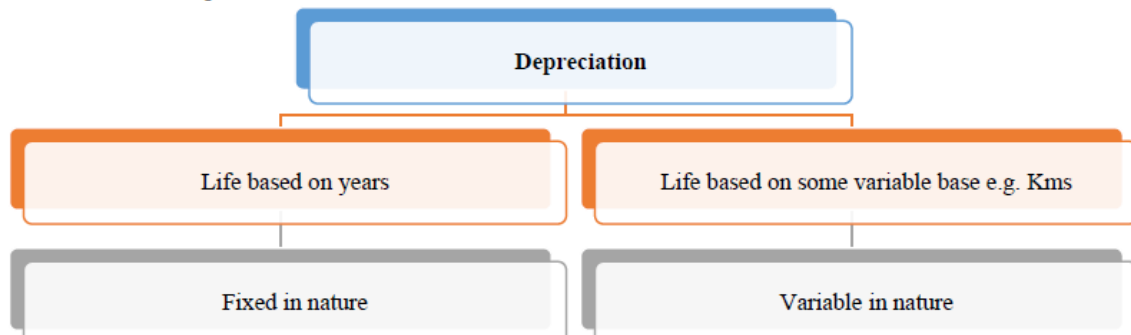
$$\text{Cost Per Unit} = \frac{\text{Total cost}}{\text{Effective cost unit}}$$
- ❖ **Points To Remember (PTRs)**
 - (A) Petrol, oil and similar charges are always on the basis of actual km travel
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Service cost of Rs. 4,000 after every 3000 kms.

If actual kms travel = 3,500; No. of service = $3500/3000 = 1.17$ or 1 Cost = $4000 \times 1 = 4,000$

If actual kms travel = 8,500; No. of service = $8500/3000 = 2.83$ or 2 Cost = $4000 \times 2 = 8,000$

Treatment of Distance (when question is silent about the distance)

CHAPTER - 5 PROCESS COSTING

IMPORTANT HIGHLIGHTS OF THE CHAPTER

- ❖ **Treatment of Royalty**
Debit the amount of royalty on the basis of normal production units
Excess or less payment of royalty will be adjusted in abnormal loss or gain account
In Royalty account only final amount on actual units produced will be payable.
- ❖ **Process Account with raw material stock**
Opening units of raw material stock along with its value will be debited to the process account.
Closing units of raw material stock along with its value will be credited to the process account.
Opening and closing stock of raw material should be adjusted while computing normal cost per unit of the process.
Normal cost per unit =
$$\frac{\text{Total Cost (includes op. raw mat.)} - \text{Closing raw mat. Cost} - \text{Scrap value of Nr. loss units}}{\text{Total Units (includes op. raw mat.)} - \text{Closing raw mat. units} - \text{Normal loss units}}$$
- ❖ **Process Account with finished goods stock**
A separate process account is prepared for each process.
Opening units of finished goods along with its value will be debited to the process stock account.
Closing units of finished goods stock along with its value will be credited to the process stock account.
All the goods produced by the process will be transferred to process stock account.
- ❖ **Process Account with WIP stock**
Opening units of WIP along with its value will be debited to the process account.
Closing units of WIP along with its value will be credited to the process account.
- ❖ **Valuation of WIP**
Calculate equivalent units of production for each element of cost i.e. material, labour and overheads by preparing statement of equivalent units.
Calculate cost per equivalent unit for each element of cost i.e. material, labour and overheads.

CHAPTER - 6 MARGINAL COSTING

IMPORTANT HIGHLIGHTS OF THE CHAPTER

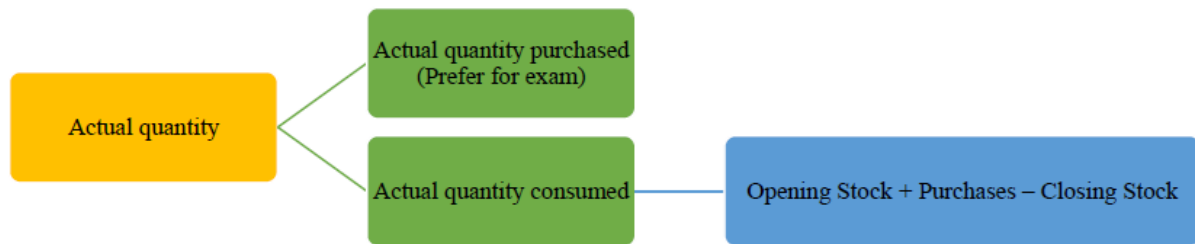
- ❖ **Points to Remember (PTRS)**
 - (A) If fixed cost per unit is given then multiply it with the level of units at which such fixed cost per unit was computed.
 - (B) Apply price effect of Total FC and never apply on FC per unit
 - ❖ **Dual Selling price or Dual variable cost questions**
 - It will lead to generation of dual contribution per unit
 - Steps to solve
 - Find both contribution per unit
 - First calculate total contribution from 1st option which will be sold first.
 - Recover the required value (FC or Profit etc.) from this and then calculate the balance required value.
- Overall Contribution per unit = Weighted average of contribution per unit =
$$\frac{\text{Total Contribution}}{\text{Total Units}}$$
- Overall P/V Ratio = Weighted average of P/V Ratio =
$$\frac{\text{Total Contribution}}{\text{Total Sales}} \times 100$$
- Overall Break-even Point (in units) =
$$\frac{\text{Fixed Cost}}{\text{Overall Contribution Per unit}}$$
- Overall Break-even Point (in Rs.) =
$$\frac{\text{Fixed Cost}}{\text{Overall P/V Ratio}}$$
- } For product-wise BEP, distribute this in ratio of sales mix

*Weights will be sales % of each product out of total sales or sales mix.

CHAPTER - 7 STANDARD COSTING

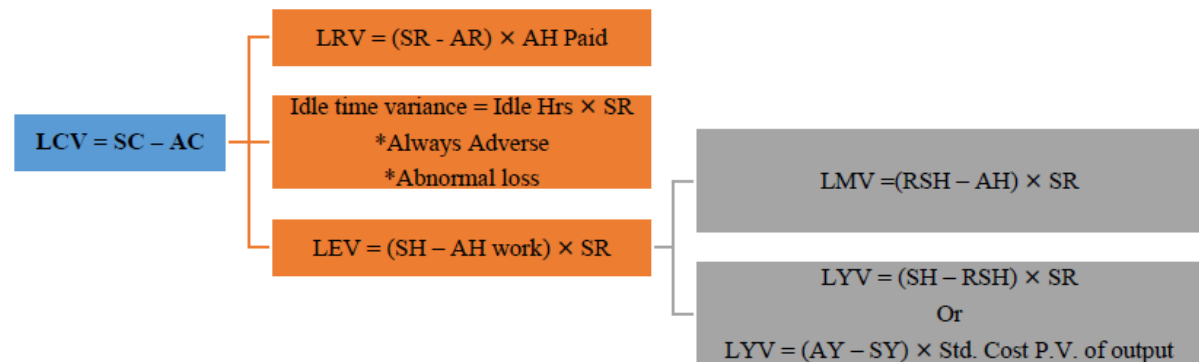
IMPORTANT HIGHLIGHTS OF THE CHAPTER

❖ Actual Quantity



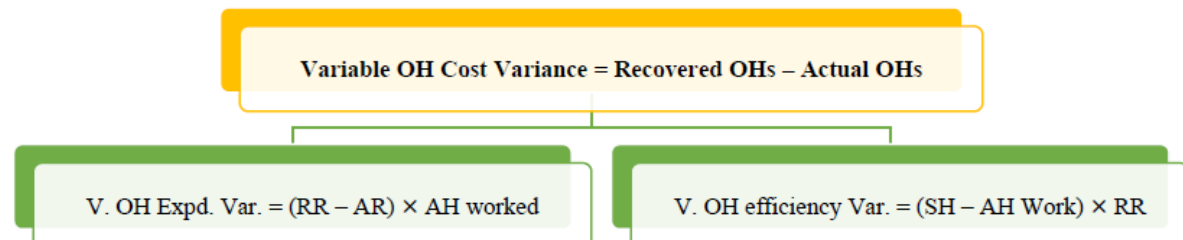
- If opening stock rate is not given then consider it at standard price.
- Unless otherwise provided, FIFO method is used.

❖ Labour Variances



* RSH will be on AH worked

❖ Variable OHs Variances



* Var. OHs are always on Hours worked.