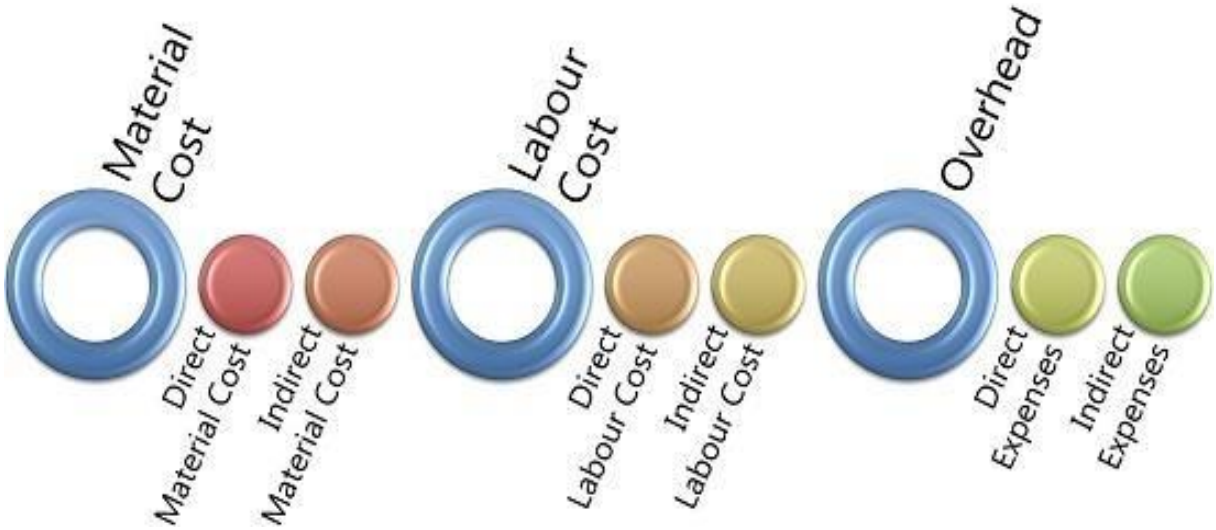
UNIT II

SUBJECT : COST & MANAGEMENT ACCOUNTING I
SUBJECT CODE : FAEC33D
CLASS : II B.A. Economics

UNIT-II: Cost Sheet: Elements of Cost and preparation of cost sheet and tender – Purpose of cost sheet – Closing stock valuation.

ELEMENTS OF COST

The elements that constitute the cost of manufacture are known as the elements of cost. Such element of cost is divided into three categories. In a manufacturing concern, raw materials are converted into a finished product with the help of labour and other service units. They are Material, Labour and Expenses.



Again, these elements of cost are divided into two categories such as Direct Material and Indirect Material, Direct Labour and Indirect Labour, Direct Expenses and Indirect Expenses.

All direct material, direct labour and direct expenses are added to get prime cost. Likewise all indirect material, indirect labour and indirect expenses are added to get overhead. Again, overhead is divided into four categories. They are factory overhead, administration overhead, selling overhead and distribution overhead.

1. **Direct Material**: It refers to material out of which a product is to be produced or manufactured. The cost of direct material is varying according to the level of output. For example: Milk is the direct material of butter.

2. **Indirect Material**: It refers to material required to produce a product but not directly and does not form a part of a finished product. For example: Nails are used in furniture. The cost of indirect material is not varying in direct proportion of product.

3. **Direct Labour**: It refers to the amount paid to the workers who are directly engaged in the production of goods. It varies directly with the output.

4. **Indirect Labour**: It refers to the amount paid to the workers who are indirectly engaged in the production of goods. It does not vary directly with the output.

5. **Direct Expenses**: It refers to the expenses that are specifically incurred by the company to produce a product. A product cannot be produced without incurring such expenses. It varies directly with the level of output.

6. **Indirect Expenses**: It refers to the expenses that are incurred by the organization to produce a product. But, these expenses cannot be easily found out accurately. For example: Power used for production.

7. **Overhead**: It is the combination of all indirect materials, indirect labour and indirect expenses.

8. **Factory Overhead**: It is otherwise called Production Overhead or Works Overhead. It refers to the expenses that are incurred in the production place or within factory premises. For example: Indirect material, rent, rates and taxes of factory, canteen expenses etc.

9. **Administration Overhead**: It is otherwise called Office Overhead. It refers to the expenses that are incurred in connection with the general administration of the company. For example: Salary of administrative staff, postage, telegram and telephone, stationery etc.

10. **Selling Overhead**: It refers to all expenses incurred in connection with sales. For example: Salary of sales department staff, travelers' commission, advertisement etc.

11. **Distribution Overhead**: It refers to all expenses incurred in connection with the delivery or distribution of goods and services from the producer to the consumer. For example: Delivery van expenses. Loading and unloading, customs duty, salary of deliverymen etc.

TYPES OF COSTS IN COST ACCOUNTING

The costs included in cost accounting are as follows:

Direct Costs

Direct costs are related to producing a good or service. A direct cost includes raw materials, labor, and expense or distribution costs associated with producing a product. The cost can

easily be traced to a product, department, or project. For example, Ford Motor Company (F) manufactures cars and trucks. A plant worker spends eight hours building a car. The direct costs associated with the car are the wages paid to the worker and the cost of the parts used to build the car.

Indirect Costs

Indirect costs, on the other hand, are expenses unrelated to producing a good or service. An indirect cost cannot be easily traced to a product, department, activity, or project. For example, with Ford, the direct costs associated with each vehicle include tires and steel. However, the electricity used to power the plant is considered an indirect cost because the electricity is used for all the products made in the plant. No one product can be traced back to the electric bill.

Fixed Costs

Fixed costs do not vary with the number of goods or services a company produces over the short term. For example, suppose a company leases a machine for production for two years. The company has to pay $2,000 per month to cover the cost of the lease, no matter how many products that machine is used to make. The lease payment is considered a fixed cost as it remains unchanged.

Variable Costs

Variable costs fluctuate as the level of production output changes, contrary to a fixed cost. This type of cost varies depending on the number of products a company produces. A variable cost increases as the production volume increases, and it falls as the production volume decreases. For example, a toy manufacturer must package its toys before shipping products out to stores. This is considered a type of variable cost because, as the manufacturer produces more toys, its packaging costs increase, however, if the toy manufacturer's production level is decreasing, the variable cost associated with the packaging decreases.

Operating Costs

Operating costs are expenses associated with day-to-day business activities but are not traced back to one product. Operating costs can be variable or fixed. Examples of operating costs, which are more commonly called operating expenses, include rent and utilities for a manufacturing plant. Operating costs are day-to-day expenses, but are classified separately from indirect costs – i.e., costs tied to actual production. Investors can calculate a company's

operating expense ratio, which shows how efficient a company is in using its costs to generate sales.

Opportunity Costs

Opportunity cost is the benefits of an alternative given up when one decision is made over another. This cost is, therefore, most relevant for two mutually exclusive events. In investing, it's the difference in return between a chosen investment and one that is passed up. For companies, opportunity costs do not show up in the financial statements but are useful in planning by management.

Sunk Costs

Sunk costs are historical costs that have already been incurred and will not make any difference in the current decisions by management. Sunk costs are those costs that a company has committed to and are unavoidable or unrecoverable costs. Sunk costs are excluded from future business decisions.

Controllable Costs

Controllable costs are expenses managers have control over and have the power to increase or decrease. Controllable costs are considered so when the decision of taking on the cost is made by one individual. Common examples of controllable costs are office supplies, advertising expenses, employee bonuses, and charitable donations. Controllable costs are categorized as short-term costs as they can be adjusted quickly.

The Bottom Line

Cost accounting looks to assess the different costs of a business and how they impact operations, costs, efficiency, and profits. Individually assessing a company's cost structure allows management to improve the way it runs its business and therefore improve the value of the firm.

COST SHEET - MEANING

A cost sheet is a formal documentation of the fixed, variable, direct, and indirect costs a business incurs from start to finish in its production process. Based on this information, a company can determine the total production cost and fix the price per item for the commodities. Cost sheets are more common for production-based businesses, but they also come in handy for service providers.

As long as you need to track resources for your business operations, a cost sheet is a must-have.

TYPES OF COST SHEETS

- Historical Cost Sheet
- Estimated Cost Sheet

- **Historical Cost Sheet -** The more common type of cost sheet is the historical cost sheet. A historical cost sheet records all the direct costs and indirect expenses incurred for a product. Here, there are no estimates or projections for cost and price.

- **Estimated Cost Sheet -** In an estimated cost sheet, the business projects the expenses for production, forecasts the profit per item, and uses this information to fix the ideal cost per unit.

COMPONENTS OF COST SHEET

A cost sheet has four major components, which are;

- Prime Cost
- Works Cost
- Cost of Production
- Total Cost or Cost of Sales

- **Prime Costs -** All the expenses directly involved in the production process are prime costs. It also passes as flat, first, or basic cost.

  Prime Cost Formula

  Prime Costs = Direct Labor + Direct Raw Material + Direct Expenses
- **Works Cost -** Works cost is the sum of prime costs and factory costs or overhead expenses. Your overhead costs are indirect costs like the money paid to workers who are secondarily involved in the production process and the money spent in taxes and utilities.
- **Cost of Production -** You should account for any expenses incurred by your business operations, including the factory rent and work costs. Cost of production is equal to work costs plus administration overhead minus the opening and closing stock for finished goods.
- **Cost of Sales -** Cost of sales is all the expenses incurred during the production plus other costs for selling and distribution overhead. This metric helps you to know the overall production value of an item based on the resources committed to it. From the cost of sales,

you can peg the sales price for finished goods and calculate your profit.

PREPARATION OF COST SHEET – SPECIMEN

Company Name	
Cost Sheet Template	
Description	**Amount**
Opening Stock - Raw Material	-
Add: Purchase - Raw Material	-
Add: Other Purchase Expenses - Raw Material	-
Add: Raw Material Utilised	-
Add: Direct Labour/Wages	-
Add: Other Direct Expenses	-
Less: Closing Stock - Raw Material	-
PRIME COST (A)	-

PRIME COST	__
ADD: Works Overhead	__
ADD: Opening stock of work-in-progress	__
LESS: Closing stock of work-in-progress	__
WORKS COST	__

Specimen of Cost sheet

Cost sheet of..... for the month of January 2011

	Particulars	*Total cost*		*Cost per unit*
		Rs.	*Rs.*	*Rs.*
	Direct material	xxx		
	Direct labour	xxx		
	Direct expenses	xxx		
	Prime cost		xxx	xxx
Add :	*Works overhead*	xxx		
	Indirect materials	xxx		
	Indirect wages	xxx		
	Factory rent and rates	xxx		
	Factory lighting and heating	xxx		
	Power and fuel	xxx		
	Repairs and maintenance	xxx		
	Drawing office expenses	xxx		
	Depreciation of plant and machinery	xxx		
	Factory Stationery	xxx		
	Insurance of factory	xxx		
	Factory/works manager salary	xxx		
	Water consumption in factory	xxx		
	Total Works Overhead		xxx	xxx
	Works cost /Factory cost /Manufacturing cost		xxx	xxx
Add :	*Office or Administration overheads:*			
	Office rent and rates	xxx		
	Office lighting	xxx		
	Office stationery	xxx		
	Office furniture depreciation and repair	xxx		
	Office salaries	xxx		
	Legal charges	xxx		
	Bank commission	xxx		
	Telephone and postages	xxx		
	Office cleaning	xxx		
	Total Administration O.H.		xxx	xxx
	Cost of Production		xxx	xxx
Add :	*Selling and Distribution overheads*			
	Salesmen's salaries	xxx		
	Salesmen' commission	xxx		
	Showroom rent	xxx		
	Showroom expenses	xxx		
	Advertisement	xxx		
	Sales office rent	xxx		
	Travelling expenses	xxx		
	Warehouse rent and rates	xxx		
	Warehouse staff salaries	xxx		
	Repairs and depreciation of delivery vans	xxx		
	Carriage outward	xxx		
	Total Selling & Distribution O.H.		xxx	xxx
	Cost of sales		xxx	xxx
	Profit / Loss		xxx	xxx
	Sales		xxx	xxx

PURPOSE OF COST SHEET /IMPORTANCE OF COST SHEET

The importance of cost sheet is as follows:

- Cost ascertainment.
- Fixation of the selling price.
- Help in cost control.
- Facilitates managerial decisions.

1. Cost ascertainment

The main objective of the cost sheet is to ascertain the cost of a product. The cost sheet helps in the ascertainment of cost to determine cost after they are incurred. It also helps to ascertain the actual cost or estimated cost of a Job.

2. Fixation of the selling price

To fix the selling price of a product or service, it is essential to prepare the cost sheet. It helps in fixing the selling price of a product or service by providing detailed information about the cost.

3. Help in cost control

For controlling the cost of a product, every manufacturing unit must prepare a cost sheet. The estimated cost sheet helps in the control of material cost, labor cost, and overheads cost at every point of production.

4. Facilitates managerial decisions

It helps in making important decisions by the management, such as: whether to produce or buy a component, what prices of goods are to be quoted in the tender, whether to retain or replace an existing machine, etc.

PROBLEMS WITH SOLUTIONS

1) Prepare cost sheet from thefollowing details.

Direct Materials – Rs.20,000
Direct Labour – Rs.8,000
Direct Expenses – Rs.1.000
Factory Expenses – Rs.3,000
Administrative expenses – Rs,2,000
Selling Expenses – Rs.600
Sales – Rs.40,000

Particulars	CPU Rs	Total Cost Rs
Direct Materials		20,000
Direct Labour		8,000
Direct Expenses		1,000
Prime Cost		**29,000**
Factory Expenses		3,000
Works Cost		**32,000**
Administrative Ex		2,000
Cost of Production		**34,000**
Selling Expenses		600
Cost of Sales		**34,600**
Profit (B/F)		**5,400**
Sales		**40,000**

2) From the following information prepare a cost sheet for the month of January 2023

	Rs.
Stock of Raw Materials on 1st January	50,000
Stock of Raw Materials on 31st January	52,400
Purchase of Raw Materials	43,800
Carriage on Purchase	2,200
Sale of Purchase	144,600
Direct Wages	34,400
Non-Productive Wages	1,600
Direct Expenses	2,400
Factory Expenses	16,600
Administrative overheads	6,400
Selling Expenses	8,400

Cost Sheet for the month of January 2023

Particulars	Rs	Rs
Stock of Raw Materials (1st janu)	50,000	
(+) Purchase of Raw Material	43,800	
(+) Carriage on Purchase	2,200	
	96,000	
(-)Stock Of Raw Materials	52,400	
Materials Consumed		43,600
(+) Direct Wages		34,400
(+) Direct expenses		2,400
Prime Cost		**80,400**
Factory Expenses	16,600	
Non- Productive Wages	1,600	18,200

Factory Cost		**98,600**
Administrative Ex		6,400
Cost of Production		**1,05,000**
Selling Expenses		8,400
Cost of Sales		**1,13,400**
Profit (B/F)		31,200
Sales		**1,44,600**

3)From the following information you are asked to prepare a cost sheet and to ascertain cost and profitper unit with the help of the following data.

Units Produced 1200 units
Selling price per unit Rs.6
Sales Revenue Rs.
7,200Cost of Production:
Materials Rs. 1320
Wages Rs. 750

Manufacturing expenses .040 Per Unit of labour cost.
Administrative expenses 10% of works cost. It has been found from the records that the selling anddistribution expenses amounted to 7 ½ on sales.

Statement of Cost and Profit (Output 1200)

Particulars	Total	Per Unit
Materials	1320	1.10
Wages	750	0.625
PRIME COST	**2070**	**1.725**
(+) Factory Overheads Manufacturing Expenses @ .040 per unit 1 rupee of Labour = 750 x 0.40	300	.025
FACTORY COST/ Works Cost	**2370**	**1.975**
(+) Administrative Overheads (10% of Works cost = 2370 x10/100=237)	237	0.1975
COST OF PRODUCTION	**2607**	**2.1725**
(+) Selling and Distribution expenses (7 ½% on sales = 7200 x 7.5/100)	540	0.45
COST ON SALES	**3147**	**2.6225**
Profit	4053	3.3775
SALES	**7200**	**6.0000**

4) From the following particulars, prepare a Cost Sheet showing (1) Cost of Materials Consumed (2) Prime Cost (3) Factory Cost (4) Cost of Production and (5) Profit

Particulars	Rs
Opening stock of raw materials	20,000
Opening stock of work in progress	10,000
Opening stock of finished goods	50,000
Raw materials purchased	5,00,000
Direct wages	3,80,000
Sales for the year	12,00,000
Closing stock of raw materials	75,000
Closing stock of work in progress	15,000
Factory overhead	80,000
Direct expenses	50,000
Office and Administrative overhead	60,000
Selling and Distribution expenses	30,000

Cost **Sheet for the year** .....

Particulars	Amount Rs	Amount Rs
Opening Stock of Raw Materials	20,000	
Purchases	5,00,000	
	5,20,000	
Less : Closing Stock of Raw Materials	75,000	
Cost of Raw Materials Consumed (I)		4,45,000
	3,80,000	
Add : Direct Wages	50,000	
Direct Expenses		
Prime Cost (2)		4,30,000
	80,000	8,75,000
Add : Factory overheads	10,000	
Add: Opening stock of work in progress	90,000	
	15,000	
Less: Closing stock of Work in Progress		75,000
Works Cost (or) Factory Cost (3)		9,50,000
Add: Office & Administrative Overhead		60,000
Cost of Production (4)		10,10,000
Add: Opening Stock of Finished Goods		50,000
		10,60,000
Less: Closing Stock of Finished Goods		50,000
Cost of Goods Sold (5)		10,10,000
		30,000
Add : Selling and Distribution Overhead		10,40,000
Cost of Sales (6)		1,60,000
Profit (7)		12,00,000
Sales for the year		

.

5)The following information relates to the manufacture of a product during the month of Jan. 2010. Raw materials consumed Rs. 20,000Direct wages Rs. 12,000

Machine hours worked 1,000

hoursMachine hour rate Rs. 2

per hour Office overhead 20%

on works costSelling overhead

Re. 0.40 per unit Units

produced 20,000 units

Units sold at Rs. 3 each; 18,000 units

Prepare a Cost Sheet and show (a) Prime Cost (b) Work Cost (c) Cost of Production (d) Costof Goods Sold (e) Cost of Sales (f) Profit

Cost Sheet for Jan. 2010

Particulars	Amount Rs	Amount Rs
Raw Materials Consumed	20,000	
Direct Wages	12,000	
Prime Cost (l)		32,000
Add: Factory Overhead		2,000
1000 x Rs. 2= 2,000		34,000
Work Cost (2)		6,800
Add : Office Overhead 20% on Works Cost (34000x20/100)		40,800
Cost of Production (3)		
Less: Closing Stock of Finished Goods (Closing Stock 20000 - 18000 = 2000 Units) Value = 40,800 x 2,000/ 200000 = 4080		4,080
Cost of Goods Sold (4)		36,720
Add : Selling Overhead 18000 @ Re. 0.40		7,200
Cost of Sales (5)		43,920
Profit (6)		10,080
Sales 18000 Units @ Rs. 3		54000

6) The following information relates to the manufacture of a product during the month ofDec 2022:

Direct raw materials Rs.

1,60,000Direct wages Rs.

90,000 Machine hours worked

6000 Machine hour rate Rs. 6

Office overhead 15% of work

costSelling overhead Rs. 2 per

unit Units produced 5000 units

Units Sold 5,000 units @ Rs. 80 each

Prepare a cost sheet and show (a) Cost per unit and (b) Profit for the period.

Cost Sheet for December 2022

Particulars	Rs	Rs
Direct Raw Materials	1,60,000	32.00
Direct wages	90,000	18.00
Prime cost	2,50,000	50.00
Add: **Factory Overhead**	36,000	7.20
(6000 x Rs. 6) Works Cost	2,86,000	57.20
Add **: Office Overhead** 2,86,000 x 15%	42,900	8.58
Cost of Production	3,28,900	65.78
Add: **Selling Overhead 5000 Units 2 RS. 2 Per unit** (5000 x Rs. 2)	10,000	2.00
Cost of Good Sold	3,38,900	67.78
Profit	61,100	12.22
Sales 5,000 x Rs. 80	4,00,000	80.00

7) The following particulars have been extracted from the books of Sharma & Co. Ltd., Chennai for the

year ended 3151 March 2003

Raw Materials Consumed Rs.

1,82,000Direct Wages Rs. 58,000

Other Direct Expenses Rs. 22000 Factory Overheads 80% of

direct wagesOffice Overheads 10% of Work Cost

Selling and distribution expenses Rs. 2 per unit sold

Units produced and sold during the month 20,000. You are required to prepare a cost sheetfor the year 2003 and also find the selling price per unit on the basis that profit mark up is uniformly made to yield a profit of 20% of the selling price.

Cost Sheet (units produced: 20000 units)

Particulars	Per unit Rs.	Total Cost Rs
Raw Materials Consumed	9.10	1,82,000
Direct Wages	2.90	58,000
Other Direct Expenses	1.10	22,000
Prime Cost (1)	13.10	2,62,000
Add : Factory Overheads :		
80% of Direct wages(58000x80/100)	2.32	46,400
Works Cost (2)	15.42	3,08,400
Add : Office Overheads :		
10% of work cost (308400 x 10/100)	1.542	30,840
Cost of production(3)	16.962	3,39,240
Add : Selling & Distribution Expenses	2.00	40,000
Cost of Goods Sold (4)	18.962	3,79,240
Add : Profit 20% of Selling Price (379240 x 20/80)	4.740	94,810
Selling Price	23.702	4,74,050

REFERENCES

- **Books**
  - Cost Accounting –S.P. Jain and K.L.Narang
  - Cost Accounting – T.S.Reddy and Y. Hari Prasad Reddy
  - Cost and Management Accounting – Prof. M.L.Agarwal & Dr. K.L. Gupta
- **Websites**
  - https://theinvestorsbook.com/cost-accounting.html
  - http://www.gladtutor.com/installation-of-costing-system/
  - https://accountlearning.com/elements-cost-cost-accounting-example/
  - https://www.freshbooks.com/hub/accounting/cost-sheet
  - https://www.iedunote.com/cost-sheet