COST ACCOUNTING

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(11) Statement of Cost and Profit

PR	Units	Amount (₹)
Opening stock of RM		3000
Add: Purchases		28000
		31000
Less: Closing stock of RM		4500
Raw Material consumed		26500
Manufacturing wages		7000
PRIME COST		33,500
Factory Overheads		
Dep on Plant		1500
Factory Rent		3000
WORKS COST		38000
Administration Exp.		
Office Rent		500
General Exp		400
COST OF PRODUCTION	3000	38,900
Add: Op stock of FG.	200	2800
	3200	41,700.
Less: Closing stock of FG $\left(\frac{38900}{3000} \times 400\right)$	(400)	(5187)
COGS	2800 stock	36513
Selling Overheads		
Advertisement Exp		600
COST OF Sales		37113
PROFIT		12887
Sales.		50000

(10). Statement of Cost & Profit

PR

	Units	Amount
Opening stock of RM		40000
Add: Purchases		152,000
		192000
Less: Closing stock of RM		(32000)
Raw Material consumed		160,000
Direct Labour		145,000
PRIME COST		3,05,000
Factory overhead		
Manufacturing overheads		108000
		4,13,000
Add: opening stock of WIP		55000
		468000
Less: Closing stock of WIP		(72000)
WORKS COST.		396,000
Administration exp.		
General exp		40000
COST OF PRODUCTION	98000	436,000
Add: Opening Stock of FG	16000	64000
	1,14,000	500,000
Less: Closing Stock of FG $\left(\frac{436000}{98000} \times 34000\right)$	(34000)	(1,51,265.30)
COGS	80000	348,734.70
Selling overhead:		
Selling expenses		50000
Cost of sales		~~398734.7~~ 398734.7
Profit		401265.3
SALES.		800,000

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(7). Statement of Cost & Profit.

	ORIENT	SUJON
Direct Material (DM)	27300	108680
Direct Labour (DL)	15600	62920
PRIME COST	42900	171,600
Works overhead (80% of labour)	12480	50336
WORK COST	55380	2,21,936
Office Overhead (15% of WC)	8307	33290.4
Cost of production	63687	255226.4
~~Works overhead~~ Selling overhead		
Sales.	(78000)	(286000)
		~~544226.4~~
PROFIT.	14313.	30773.6

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THEORY. Cost Accounting

Meaning →

Costing → It is a technique & process of ascertainity the cost.

Cost Accounting

Cost Accountancy

The art & practice of following technique for cost accounting

* Limitations of financial accounting :→

1) No clear idea of operating efficiency
2) weakness not supported by collected results
3) Not helpful in price fixation
4) Not helpful in decision making
5) Not control over cost
6) Only historical information

* Scope of cost accounting :→ Imp & significance

1) Cost ascertainment
2) Cost Accounting
3) Cost control
4) Cost Reduction
5) Cost audit
6) Cost comparison

COST

Material | Labour | Expense

Direct
(Labour, Material Exp)

Indirect/overheads
(Manf/Production/Factory overheads
Administration
selling Distribution)

* <u>Objectives of Cost Accounting</u> :-

1) To ascertain cost per unit.
2) To help him price fixation
3) To ascertain the profitability of each produc
4) To minimize the capital block
(Raw Material + working progress + Finish goods).
5) Advise management for expansion
6) cost reduction programme.

* <u>Advantages</u> :-

* Profitability + non-Profitability activities + differentiation

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Cost A/c / Financial A/c

	Cost	Financial
Purpose	General way	Proper way related to product & service
Reporting	as and when desire	end of the financial year
Info	Monetary as well as non-monetary	Only Monetary
Stock Valuation	At cost	At cost on market price whichever is less.
Data	Historical & present estimates.	Historical

Cost Accounting information system / costing system.

* steps in designing a system
1) Need of Managers
2) Data collection
3) Objectives will be sent
4) Prior testing

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* Features of a ideal costing system
1) suitable to the business
2) simple
3) flexible
4) economical (cost benefit analysis)
5) support from the Management
6) Precise information

* Steps for Installation
1) clear objectives
2) studying the existing organisation
3) Deciding the structure
4) determine the cost rates
5) Introducing the systems
6) organising the office
7) Relationship with other departments
8) clear Authority

* Pratical difficulties (in installation)
1) Lack of support from management
2) Resistance from existing staff
3) Non-cooperation from other departments
4) Shortage of trained staff
5) Expensive

* Numerical
Material - Raw Material (Direct) (Specifically Pur- Material)
* Direct Material - Easy to identify & Measure
* Components of Main product

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Labour :→ Engaged in the production
(Aid to manufacturing)

* Expenses- (Royalty, Excise duty) direct exp

MATERIAL + LABOUR + EXPENSE
= PRIME COST

* Overheads
Manf/Prod/ Factory overheads] Add Prime cost + = Factory/ works cost
&
Administrative → + cost of production
selling
Distribution] + Total cost or cost of sales

Notes
* Cost Accounting → Cost Accounting is the process of accounting for cost which begins with recording of income & expenditure & end with the preparation of statistical data. It is the formal mechanism by means of which cost of products or services are ascertained & controlled.

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Cost Sheet

	Unit	Amount
DW		
DL		
DM – $\begin{array}{l} \text{OP} \\ +\text{P} \\ \hline \text{XX} \\ -\text{CL} \\ \hline \text{XXX} \end{array}$		
PRIME COST		
Factory overhead		
WORK COST		
Administration overhead		
COST of prod		
Selling overhead		
Cost of sales		
Prof		
Sale		

① Statement of profit + Cost	Unit	₹
Direct Material		
~~62,800~~ + opening stock of RM		62800
Material Purchased		185000
Carriage inward		7150
Closing stock of RM		(48000)
		286950
Direct wages (Productive)		126000
Prime COST.		332950
Factory Overhead		
Factory office salaries		6500
Repairs of plant, Machinery + tools		4450
ent, Rates, Taxes + Insurance		8500
Dep on Plant + Machinery & Tools		6500
Gas + Water		1200
Managers salary		7500
WORK COST.		3,67,600
Administration overhead.		
General office salaries		12600
Rent, Rates, Taxes + Insurance		2000
Depreciation - Furniture		300
Gas + water		400
Managers salary		2500
General expenses		3400
Director's fees		6000
COST OF PRODUCTION		3,94,800
Selling Overhead		

		394800
Travelling exp		2100
Bad debts written off		6500
Traveller's salary & Comm		7700
Carriage outward		4300
Cost of sale.		415,400
Profit		45700
Sales		461100

* Methods of Valuing Material Issue :→

1) FIFO → Under this method, material is first issued from the earliest consignment or as per the exit order of purchase on hand & price at the cost at which consignment was placed in the stores. In other words materials received first are issued first. This is the basic principal behind cost price method (FIFO).

Adv → ① It is simple to understand & easy to operate.

② It is a logical method because materials are issued in order of purchase so mater received first are utilised first.

③ This method is useful when price are falling.

④ This method " " " material transactions are not too many and prices of the material are stable.

FIFO → First in first out.

② LIFO → It is against FIFO method, the basic principle behind LIFO is, this method is sometimes known as replacement cost method because materials are issued at current ③ order of job or work order, except when purchases were made long ago.

LIFO - LAST in first out.

Ques → Jan. 1 Opening balance ₹500

" 5	Received	from	vendor		200
" 12	"	"	"		150
Jan 20	"	"	"		300
Jan 25	"	"	"		400
Jan 28	"	"	"		300

Date	Particulars	LF	Amount

Adv of LIFO → ① It is simple to operate & useful when transaction ~~are~~ are not too many

② This method recovers cost from production because actual cost of material is charged to be produced

③ In times of rising prices LIFO method of pricing issues is suitable because material are issued at current market price which are high.

10,000,000

22,000,000

Average Cost Method → The principle on which it is based is that all the materials in the stores are so mixed up that issue cannot be made from any particular

lot of purchases → Therefore material are issued at an average cost of material. for eg → following are the 3 diff lots of material in stock when material is to be issued 1000 units purchased at Rs 10000
2) 2000 units purchased at 11000 Rs.
3) 3000 units purchased at Rs- 12000.

eg taken

Weighted Average price → A price which is calculated by dividing the total cost of material in stock from which material to be priced could be total quantity of material in that stock.

$$\frac{68,000,000}{6000} = 11,333.3.$$

Adv → ① This method recovers the cost of mater from production
② This method maintains the issue prices as near to the market prices as possible.
3) This method eliminates the necessity for adjustments in stock valuation.
) Issue prices are not to be calculated each tim issues are made. Issues prices are change only when new lot of material is received.

Ques-4 ABC industries manufactures product x on Jan 1, 2007 their were 5000 units of finished products in stock & other stocks on 1 Jan 2007 are

1. work in progress - Rs 57400
2. Raw materials - 1,16,200
3. Info available direct Material, 9,56,900
4. direct labour - 326400
5. Raw material purchased - 55700
6. Indirect labour 121600
7. other Factory overhead 317,300
8. Stock of Raw material 31 Dec 2007 96400
9. work in progress on 31 Dec 2007 78207
10. Sales 30,00,000
11. Indirect Material 213,900