

Quadrant II – Transcript and Related Materials

Programme: S.Y. B.Com

Subject: Fundamentals of Cost Accounting

Paper Code: COC 106

Paper Title: Fundamentals of Cost Accounting

Unit: Unit Costing

Module Name: Cost sheet - Actual and Estimated (Part 2)

Module No: 08

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Glossary of terms/words:

Cost -The amount of expenditure (actual or notional) incurred or attributable to a given thing.

Costing- The techniques and processes of ascertaining costs.

Cost Accounting- denotes the formal accounting mechanism by means of which costs are ascertained by recording them in the books of account.

Cost Sheet- a document which provides for the assembly of the detailed cost of a cost centre or cost unit.

Total Cost- The sum of direct and indirect cost. Expenditure incurred to produce a product

Estimated Cost- Would be cost of a product

Historical Data- Cost incurred and documented

Direct Material- Cost which can be conveniently identified with and allocated to product/cost units.

Direct Labour- Cost consists of wages paid to workers directly engaged in converting raw materials into finished products.

Direct Expenses- These are those expenses which are specifically incurred in connection with a particular job or cost unit.

Indirect Expenses- All indirect costs, other than indirect materials and indirect labour costs, are termed as indirect expenses. These cannot be conveniently identified with a particular job

Overheads- This is the aggregate of indirect material cost, indirect labour cost and indirect expenses.

Factory Overheads- These are those overheads which are concerned with the production function.

Office and administrative Overhead- This is the indirect expenditure incurred in general administrative function,

Selling and Distribution overhead- Selling overhead is the cost of promoting sales and retaining customers.

Prime Cost- Direct material + Direct labour + Direct expenses.

Works Cost or Factory Cost - Prime cost + Factory overhead.

Cost of Production - Works cost + Administration overhead.

Total Cost or Cost of Sales - Cost of production + Selling and distribution overhead.

Possible misconceptions/clarification

Generally, we tend to misinterpret the total cost of a product as the total expenditure incurred to run a business. It includes only those expenditure direct as well as indirect incurred to produce a product. And therefore, the Cost sheet records only those expenditure which are incurred directly or indirectly to produce a product. It does not include financial expenses, and other expenses not connected with the process of productions. Given below is the list of items not included while preparing the cost sheet:

- | | |
|-------------------------------------|---|
| 1. Cash discount | 7. Transfer to reserve |
| 2. Interest paid | 8. Donations |
| 3. Preliminary expenses written off | 9. Income-tax paid |
| 4. Goodwill written off | 10. Dividend paid |
| 5. Provision for taxation | 11. Profit/loss on sale of fixed assets |
| 6. Provision for bad debts | 12. Damages payable at law, etc. |

Example to understand the statement of Cost Sheet

Illustration

Prepare a cost sheet of the following data relating to the manufacture of Tables:

Number of Tables manufactured during the month	1,000
Direct materials consumed	20,000
Direct labour	8,000
Indirect labour (in factory)	2,500
Supervision costs (in factory)	1,000
Factory premises rent	1,600
Factory lighting	600
Oil for machines	100
Depreciation of machines	500
Office overheads	8,000
Office salaries	2,000
Misc. office expenses	1,000
Selling and distribution overheads	6,000

Note: A profit margin of 20% on the total cost of goods is expected on the sale of Tables.

Solution

Cost Sheet (for the period....)

Particulars		Total for 1,000 units	Per unit
Direct materials	20,000		20.00
Direct labour	8,000		8.00
Prime Cost		28,000	28.00
<i>Works/Factory Overheads:</i>			
Indirect labour	2,500		2.50
Supervision costs	1,000		1.00
Factory rent	1,600		1.60
Factory lighting	600		0.60
Oil formachines	100		0.10
Depreciation of machines	500	6,300	6.30
Works Cost		34,300	34.30
<i>Office and Adm. Overheads:</i>			
Office overheads	8,000		8.00
Office salaries	2,000		2.00
Misc. expenses	1,000	11,000	11.00
Cost of Production		45,300	45.30
<i>Selling and Distribution Overheads:</i>		6,000	6.00
Total Cost		51,300	51.30
Profit 20% of Total Cost		10,260	10.26
Sales		61,560	61.56