Indian Accounting Association

Subject: Cost and Management Accounting

Topic

Introduction to Cost Accounting and Cost Sheet

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Cost Accounting

Introduction to Cost Accounting and Cost Sheet

Learning objectives of this unit:

After going through this unit, you should be able to:

- Understand the need for Cost Accounting and its evolution.
- Explain the concept of cost and Cost Accounting.
- Know the objectives of Cost Accounting.
- State the difference between the Cost Accounting and Financial Accounting.
- Find out the role of Cost Accountant in a business organization.
- Explain the various classifications of cost.
- Examine the elements of cost.
- Know the factors to be considered in installation of costing system.
- Explain the components of the total cost.
- Understand Cost Sheet.
- Prepare a Cost Sheet.

1. INTRODUCTION:

Accounting is the language of business and it is also an information system. It provides information to stakeholders of business for their decision making. There are mainly three branches of Accounting; such as Financial Accounting, Cost Accounting and Management Accounting. Due to the limitations of Financial Accounting in analyzing the cost data, Cost Accounting was developed.

Cost Accounting involves the study of principles, methods, techniques for ascertaining, analysing and controlling costs. The main objective of any business organization is to earn profit. Cost Accounting is concerned with cost control and cost reduction. This in turn will help the business organisations to achieve their main objective. The managers who are the main users of the Cost Accounting information, use this information for pricing, cost control, budgeting, periodic profit determination, etc. In this unit, we shall introduce you to this branch of Accounting, called Cost Accounting.

2. NEED AND EVOLUTION OF COST ACCOUNTING:

Any economic activity of an organization, associated with production of goods or in rendering of service, involves some expenses or costs. For example, in the manufacturing of a pen, various expenses such as materials, labour and other direct and indirect expenses are involved. After knowing the total cost of a pen, the producer fixes the selling price so that some profit can be earned. We know that the main objective of any business organization is to earn profit. For this, cost determination and cost control are essential. An organization can also produce many products or render many services. It requires detailed cost information for planning, controlling and decision making of managers. Financial Accounting failed to provide detailed cost information regarding various activities undertaken by an organisation. Hence, the accountants developed a new branch of accounting, known as Cost Accounting.

During seventeenth century, the use of Cost Accounting system was first traced. In nineteenth century, the industrial revolution led to the development of modern Cost Accounting. It also started to take pace in 1890s when many new cost concepts were introduced. In 1919, the Institute of Cost and Works Accountants was established in London and at the same time the National Association of Cost Accountants was established in New York. In 1959, the Cost and Works Accountants of India was formed which is now called the Institute of Cost Accountants of India. The Government of India along with the institute has taken a lot of steps for the development of Cost Accounting profession in India.

2. MEANING OF SOME TERMS:

Cost: It refers to the expenditure incurred in producing a product or rendering a service. It is the resource given up in exchange for some goods or services.

Costing: It is the technique and process of ascertaining costs. It consists of rules and principles for ascertaining cost of products manufactured and services rendered.

Cost Accounting: It is the process of accounting for costs. It is a branch of accounting that meets the informational needs of the managers for their decision making. The Cost Accounting and Costing are usually interchangeably used.

The steps in Cost Accounting are:

- Recording of cost data,
- Classifying all cost data,
- Preparing cost data by using appropriate method,
- Analysing cost data by using cost control technique,
- Presenting relevant information for decision making.

Cost Accountancy: It is the science, art and practice of a Cost Accountant. According to CIMA London, "Cost Accountancy is the application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability. It includes the presentation of information derived therefrom for the purpose of managerial decision making."

Cost unit*:* Cost unit is a unit or quantity of product, service or time in terms of which cost is expressed. It is necessary to express the output in terms of physical measurement like number, weight, length, etc. The cost unit of petrol or diesel is per litre, gold is per gram, rice is per kilo gram, etc,

Cost centre: It is a unit or part of the organization. It may be a location, person or item of equipment or a group of these for which cost is ascertained and used for cost control. It is a convenient unit of the organization for which cost may be ascertained. For example, various departments of a business organization can be taken as cost centre like production department, service centre, staff canteen, etc.

4. OBJECTIVES AND ADVANTAGES OF COST ACCOUNTING:

4.1 Objectives of Cost Accounting:

There is relationship between the main objective of a business organization and the objectives of Cost Accounting. Some important objectives of Cost Accounting are as follows:

i. ***To ascertain cost:*** The main objective of Cost Accounting is to determine cost of a product, process, job or operation.
ii. ***To classify cost:*** Cost is classified in many ways based on element, function, variability, etc. for cost analysis.
iii. ***To control cost:*** Cost Accounting also focus on controlling cost by comparing actual costs with standard costs that has been set by the organisation.
iv. ***To fix selling price:*** Cost Accounting guides the management in fixing the selling price of various products and services.
v. ***To identify the causes of wastage:*** Cost Accounting identifies the causes of wastage and takes steps to control it.
vi. ***To facilitate preparation of cost statements:*** Cost Accounting prepares cost statements to review cost and plan future activities.
vii. ***To report to the management:*** Cost Accounting reports all the information relating to cost to the management for their decision making.
viii. ***To study the efficiency:*** It evaluates the efficiency of different departments, products and branches.

4.2 Advantages of Cost Accounting:

If a business organization follows Cost Accounting, it will get many benefits. A few important benefits of Cost Accounting are as follows:

i. ***Facilitates decision making:*** Cost Accounting gives relevant information on cost, such as material, labour, overhead, etc. for planning and decision making of the management
ii. ***Improves efficiency:*** Cost Accounting helps in increasing the efficiency of the organization by setting standards and analysing variances.
iii. ***Identifies unprofitable activities:*** Cost Accounting reveals the wastage and improper use of resources.
iv. ***Helps in price fixation:*** Cost Accounting helps management in fixing the selling price of a product by giving detailed information on different cost of the product.
v. ***Helps in budget preparation:*** Cost Accounting provides information for preparation of plan of action for a future period.
vi. ***Facilitates cost control:*** Cost Accounting has many techniques like budgetary control and standard costing which are used for cost control.

vii. ***Facilitates inventory control:*** Different inventory control techniques helps in exercising control over raw materials, work in progress and finished goods.

viii. ***Benefits the society:*** A good costing system helps in providing quality goods at reasonable price which ultimately benefit the society.

5. DIFFERENCES BETWEEN COST ACCOUNTING AND FINANCIAL ACCOUNTING:

Cost Accounting and Financial Accounting are the two branches of accounting. They have many similarities. Both are concerned with systematic recording and presentation of data by following the same principles of debit and credit. Both the branches of accounting are complementary to each other and helps in maximizing the profit.

However, there are some differences between Cost Accounting and Financial Accounting which are as follows:

Point of distinction	***Cost Accounting***	***Financial Accounting***
Purpose	Its main purpose is to analyse, ascertain and control cost.	Its main purpose is to record financial transactions and prepare the financial statements.
Uses	Cost Accounting data are required for internal use.	Financial Accounting data are required for external use.
Frequency of reporting	Cost Accounting information are provided at frequent intervals.	Financial Statements are prepared at the end of the accounting period.
Interested parties	Cost Accounting information serves the management.	Financial Accounting information serves the lenders, creditors, owners, employees, Government, society, etc.
Actual and Standard	Cost Accounting sets the standard and compare the actual data to find out the variance.	Financial Accounting only records the actual transactions.
Monetary/Nonmonetary information	It records both monetary and physical units.	It records only monetary transactions.
Analysis of profit/loss	It determines the cost, profit or loss on each product, job, department, etc.	It determines the profit and loss for the entire organisation.
GAAP/flexibility	Cost Accounting is not constrained by GAAPs. It is flexible and voluntary.	Financial Accounting is prepared according to Generally Accepted Accounting Principles.

6. CLASSIFICATION OF COST:

i. ***According to element:***
   - *Material Cost:* It refers to the cost of materials used in production of goods and rendering services.
   - *Labour Cost:* It refers to the cost of wages, salaries, commission, bonus, etc of the employees.
   - *Expenses:* It refers to the expenditure other than material and labour.

ii. ***According to Variability:***
   - *Fixed Cost:* It refers to the cost that remain unchanged with the change in volume of production. These costs, also known as period costs, do not change during an accounting period. For example, salary of managers, depreciation of buildings, insurance, rent, etc.
   - *Variable Cost:* It refers to the cost that varies directly with the volume of production. These are also known as direct costs. For example, raw material, direct labour, direct expense, variable overhead, etc.
   - *Semi Variable Cost:* It refers to the cost that is partly fixed and partly variable. These costs are partly affected by the volume of production. For example, depreciation on plant and machinery, electricity charges, etc.

iii. ***According to Functions:***
   - *Production Cost:* It refers to the cost incurred in the production process. It is also called as manufacturing cost. It represents prime cost plus the production overhead.
   - *Administration Cost:* It refers to the cost incurred in general administration of the organization. These are in the nature of indirect expenses. For example, salaries of office staff, maintenance of office building, rent and depreciation of office building, printing & stationary, office supplies, telephone charges, etc.
   - *Selling Cost:* It refers to the cost incurred for sale of goods. It includes salesman salary, training of salesman, advertisement cost, etc.
   - *Distribution Cost:* It refers to the cost incurred on dispatch of finished goods to customers. It includes the packaging cost, salary of transport personnel, carriage outward, etc.

Elements of Cost:

The three elements of cost are explained below:

i. **Material:** It refers to all the commodities supplied to any entity. Materials can be sub divided into two categories, i.e., Direct Materials and Indirect Materials.
   - ***Direct Materials:*** The materials that can easily be identified with finished goods and directly allocated to a particular product are called direct material. For example, wood in furniture, cloth in shirt, bricks for building, etc.
   - ***Indirect Materials:*** The materials which cannot be conveniently traced and allocated as part of the product is called indirect material. For example, consumable like spare parts, thread used in garments, etc.

ii. **Labour:** It refers to the workers employed by the entity for production and other works. Labour can be sub divided into direct labour and indirect labour.
   - ***Direct Labour:*** The workers involved directly in the process of production are called direct labour. Direct labour is also called direct wages, productive labour, prime cost labour, process labour and operating labour. For example, carpenter for making furniture, weavers in weaving unit, etc.
   - ***Indirect Labour:*** The workers that are indirectly involved in process of production are called indirect labour. For example, maintenance workers, store keepers, workers employed in payroll department or providing services.

iii. **Expenses:** All expenses other than material and labour cost are termed as expenses. Expenses can further be classified as direct expenses and indirect expenses.
   - ***Direct Expenses:*** The direct expenses other than direct material cost and direct labour cost are called direct expenses. These expenses are directly identifiable with the job or process or operation. For example, carriage inward, hiring charges of machine, tools, cost of special pattern, layout, etc.
   - ***Indirect Expenses:*** The indirect expenses other than indirect material and indirect labour are called indirect expenses. These expenses cannot be charged to the product directly. For example, power, depreciation, rent, canteen expenses, repair and maintenance, etc.

7. INSTALLATION OF COSTING SYSTEM:

A single system of costing cannot suit all business organisations. In all business enterprises, cost is involved and therefore, there is a need for costing, it is necessary to conduct research to assess the requirements of the business. The factors to be considered for installation of a costing system are as follows:

i. ***Nature of business:*** The nature of business should be studied to select the proper method of costing.

ii. ***Objectives*:** The expectations of the management and the objectives to be achieved by adopting the costing system should be identified.

iii. ***Organisation Structure:*** The size and type of the organisation, scope of authority of each executive should be studied.

iv. ***Technical aspects:*** Nature of the product, stages of production cycle, inventory control, labour control, etc. should be studied in detail.

v. ***Standardisation:*** Various forms should be standardized as far as possible to reduce the clerical work.

vi. ***Economical:*** The system should be economical to install and operate.

vii. ***Cost control areas*:** The various areas where cost control is to be exercised should be identified.

viii. ***Communication:*** There should be proper system of communication so as to maintain continuous flow of information to appropriate authorities.

ix. ***Reconciliation:*** Arrangements should be made to reconcile the cost and financial profits.

8. ROLE OF COST ACCOUNTANT:

Cost Accountants are specialists with professional knowledge, who determine the costs associated with the manufacturing of a product or providing a service. They help to plan, budget, set the standards, control and monitor the performance, find the variance and take necessary steps. Some of the key responsibilities of a Cost Accountant are as follows:

i. ***Data Collection:*** Collecting data is required to determine the cost of the product or services. Cost accountant suggests the basis for classification of cost into direct and indirect cost.
ii. ***Cost Control:*** Cost accountant does the cost comparison for controlling the cost of the product. Standard cost is determined and compared with the actual cost to find out the variances. The variances are analysed and suitable actions are taken.
iii. ***Decision Making:*** Cost accountant analyses the cost and takes various decisions, such as make or buy decision.
iv. ***Estimation:*** He/she makes estimate of new and proposed product cost.
v. ***Cost Reports:*** Cost accountant prepares cost reports which are then analysed by the management and the strengths and weaknesses are identified.
vi. ***Inspections:*** He/she conducts physical inventory inspections.
vii. ***Other Reports:*** He/she provides management with reports specifying and comparing factors affecting prices and profitability of the product.

Check your Progress

1. What is Costing?
2. What is Cost Accounting?
3. Why do the business organisations need cost accounting?
4. What is variable cost?
5. What is direct material?
6. Define cost unit.
7. Give the classification of cost based on function.
8. Fill in the blanks:
   i. Sugarcane in sugarcane industry is ________ material.
   ii. The three main elements of cost are ______, ______ and _______.
   iii. Cost Accounting provides data for managerial _______.
   iv. Cost Accounting records both monetary and _______units.

9. ELEMENTS OF TOTAL COST

The total cost of a product or a service has many components. A statement of cost usually has the following elements:

Prime Cost is the summation of all the direct cost. It is the total of direct material, direct labour and direct expenses. It is also called as direct cost or basic cost.

Factory Cost is the summation of prime cost and the factory overhead. Factory overhead include the indirect material used in factory such as oil or grease, indirect labour like the managers salary, and indirect factory expenses. Factory cost is also called as works cost, manufacturing cost or production cost.

We get **cost of production** by adding office and administrative overhead to the factory cost. Office and administrative overhead is the indirect material, indirect labour and indirect expenses used in office. For example, printing and stationery, office rent, staff salary, lighting, insurance, etc.

Total cost is the total of cost of production and selling and distribution overhead. The selling and distribution overhead include the indirect material, indirect labour and indirect expenses used in the selling and distribution. For example, packaging, salaries of salesman, advertisement expenses, etc.

Direct Material + Direct Labour + Direct Expenses = Prime Cost
Prime Cost + Factory Overheads = Factory Cost or Works Cost
Factory Cost + Office and Administrative Overhead = Cost of Production
Cost of Production + Selling and Distribution Overhead = Cost of Sales or Total Cost

10. COST SHEET:

Cost sheet is statement of cost showing total cost as well as cost per unit for a particular period. It shows the components of total cost in a classified manner.

Proforma of Cost Sheet

Cost sheet of ……
For the period….. Output ….. units

	Total Cost	Cost per unit
Direct Material	xxx	Xxx
Direct Labour	xxx	xxx
Direct Expenses	xxx	xxx
PRIME COST	xxx	Xxx
Add: Factory Overhead	xxx	Xxx
FACTORY COST/WORKS COST	xxx	Xxx
Add: Administrative Overhead	xxx	xxx
COST OF PRODUCTION	xxx	xxx
Add: Selling and Distribution Overhead	xxx	xxx
TOTAL COST	xxx	xxx
Add: Profit	xxx	xxx
SALES	xxx	xxx

Illustration 1:

From the following information, prepare a cost sheet.

Particulars	***Amount (Rs.)***
Direct Material	10,50,000
Direct Expenses	50,000
Direct wages	2,50,000
Factory rent and taxes	24,000
Office rent	10,000
Showroom rent	20,000
Printing and stationery	5,000
Repair of factory plant	22,000
Maintenance of factory plant	23,000
Factory lighting	48,000
Office staff salary	24,000
Factory manager salary	13,000
Telephone charges	2,000
Legal expenses	5,000
Advertisement	12,000
Salesman salary	12,000
Plant depreciation	20,000
Director's remuneration	4,000
Distribution expenses	6,000
Profit: 15% on cost of sales	

Solution:

Cost Sheet for the month of …

Particulars of Cost	Rs.	Rs.
Direct material	10,50,000	
Direct wages	2,50,000	
Direct expenses	50,000	
Prime Cost		13,50,000
Factory overheads:		
Factory rents and rates	24,000	
Repairs of factory plant	22,000	
Maintenance of factory plant	23,000	
Plant depreciation	20,000	
Factory lighting	48,000	
Factory manager's salary	13,000	1,50,000

Factory Cost		15,00,000
Office and Administrative overheads:		
Office staff salary	24,000	
Telephones charges	2,000	
Office rent	10,000	
Printing and stationery	5,000	
Legal charges	5,000	
Director's remuneration	4,000	50,000
Cost of Production		15,50,000
Selling and Distribution Overhead:		
Advertisement	12,000	
Salesman salary	12,000	
Showroom rent	20,000	
Distribution expenses	6,000	
Total Cost (Cost of sales)		50,000
Profit (15% on cost of sales)		16,00,000
		2,40,000
Sales		18,40,000

Check your Progress

9. Give three examples of factory overheads, indirect material, indirect expenses, office and administrative overhead.
10. How work in progress is adjusted in cost sheet?
11. How raw material consumed is calculated?
12. What is the difference between cost of production and cost of sales?
13. Choose the correct option:

i. Cost sheet is prepared:
   a) at the end of the year c) half yearly
   b) at the end of the production process d) quarterly

ii. Prime Cost of any product comprises of:
   a) All indirect cost c) All direct and indirect cost
   b) All direct cost d) Overheads

iii. If factory cost is Rs. 3,00,000, prime cost is Rs. 2,00,000, direct material is Rs. 1,50,000, the factory overhead is:
   a) 50,000 c) 100,000
   b) 1,50,000 d) 200,000

iv. Rent of building of manufacturing unit is:
   a) Indirect expenses c) Selling expenses
   b) Direct expenses d) Semi- variable cost

v. Which of the following is not a component of prime cost?
   a) Direct material c) Overheads

b) Direct labour d) Direct expenses

11. TREATMENT OF STOCK IN COST SHEET:

There are three types of stock in a manufacturing organization namely stock of raw materials, stock of work in progress (W.I.P) and stock of finished goods.

Stock of Raw Materials, WIP and Finished Goods: If there is stock of raw materials then we calculate the cost of raw materials consumed by adding purchases with the opening stock of raw materials and deducting closing stock. Stock of work in progress refers to the partly finished goods. If work in progress is valued at prime cost basis, then it is adjusted before arriving at the prime cost. But if work in progress is valued at work cost basis, then it is adjusted before arriving at the works cost. In case of stock of finished goods, it is adjusted after cost of production to find the cost of goods sold.

Proforma of Cost Sheet showing adjustment of Stock

Cost sheet of ……
For the period…..

	Total Cost	Cost per unit
Opening Stock of Raw Materials		
Add: Purchases		
Less Closing Stock of Raw Materials		
COST OF MATERIALS CONSUMED		
Direct Labour		
Direct Expenses		
PRIME COST		
Add: Factory Overhead		
Add: Opening W.I.P		
Less: Closing W.I.P		
FACTORY COST/WORKS COST		
Add: Administrative Overhead		
COST OF PRODUCTION		
Add: Opening Stock of Finished Goods		
Less: Closing Stock of Finished Goods		
COST OF PRODUCTION OF GOODS SOLD		
Add: Selling and Distribution Overhead		
TOTAL COST OF SALES		
Add: Profit		
SALES		

Illustration 2:

From the following information of manufacturing company for the month of January 2021, prepare Cost Sheet for showing the cost of goods produced.

Cost of raw materials as on 1.1.2021	7,500
Rs.	95,500
Raw materials purchased	2,000
Carriage on purchases	5,000
Chargeable expenses	40,000
Direct wages paid	15,000
Factory overheads	35,000
Cost of work in progress on 1.1.2021	15,000
Cost of raw materials on 31.1. 2021	25,000
Cost of work in progress on 31.1.2021	12,000
Office and administrative overhead	

Solution:

Cost Sheet
For the month of January 2021

		Rs.	Rs.
Cost of direct materials used:			
Opening stock of raw materials		7,500	
Add: Raw materials purchased	95,500		
Add: Carriage on purchases	2,000	97,500	
Less: Closing stock of raw materials		15,000	90,000
Direct Labour			40,000
Direct Expenses			5,000
Prime Cost			135,000
Add: Factory Overhead			15,000
Gross Works Cost			150,000
Add: Opening stock of work in progress			35,000
			185,000
Less: Closing stock of work in progress			25,000
Works Cost			160,000
Add: Office and Administrative Overhead			12,000
Cost of goods produced			172,000

12. SOME OTHER CONCEPTS OF COST:

Controllable costs: The cost that can be regulated or controlled are called controllable cost. Variable costs are generally controllable cost. But with time, all costs will be controllable by someone in the organization.

Uncontrollable costs: The cost that cannot be regulated or controlled are called uncontrollable cost. Fixed costs are generally uncontrollable cost.

Sunk cost: These are the historical costs that have been incurred due to a decision made in the past. These costs are irrecoverable and not relevant for decision making. For example, the costs incurred for plant and machinery.

Relevant Costs: The cost that are relevant in the decision-making process of the management are called relevant cost. Future variable costs are relevant in decision context.

Conversion cost: It is the total of direct labour, direct expenses and factory overheads.

Period cost: Fixed cost is referred to as period cost.

13. LET US SUM UP

Cost Accounting is a specialized branch of Accounting. This branch was developed by accountants for cost determination and cost control of goods produced or services rendered as financial accounting failed to provide detailed information of cost of various products and services. Cost Accounting involves recording of cost data, classifying all cost data, preparing cost data by using appropriate method, analysing cost data by using cost control technique and presenting relevant information for decision making.

Cost Accounting gives relevant information on material, labour, overhead, etc. for planning, controlling and decision making of the management. It helps in increasing the efficiency of the organization by setting standards and analysing variances. It reveals the wastage and improper use of resources. It also helps management in fixing the selling price of a product or service by giving detailed information on different costs. Cost Accounting provides information for preparation of plan of action for a future period. Many techniques like budgetary control and standard costing are used for cost control. Different inventory control techniques help in exercising control over raw materials, work in progress and finished goods. A good costing system helps in providing quality goods at reasonable price which ultimately benefits the society.

The factors to be considered for installation of a costing system are the nature of business, the objectives to be achieved, the size and type of the organization, nature of the product, stages of production cycle, inventory control, labour control, etc. The system should be economical to install and operate. There should be proper system of communication to maintain continuous flow of information to appropriate authorities.

Cost accountants are specialist who determine the cost associated with the manufacturing of a product or providing a service. They help to plan, budget, set the standards and monitor the performance, find the variance, and take necessary steps. Cost accountant analyses the cost and take various decisions, such as make or buy decision. Cost accountant prepares cost reports which are then analysed by the management and the strengths and weaknesses are identified.

The total cost of a product or a service has many components. A statement of cost usually has the following elements: Prime Cost, Factory Cost, Cost of Production and Total Cost. Cost sheet is statement of cost showing total cost as well as cost per unit for a particular period. It shows the components of total cost in a classified manner.

14. KEY WORDS:

***Cost*:** It refers to the expenditure incurred in producing a product or rendering a service.

Costing: It is the technique and process of ascertaining costs.

Cost Accounting: It is the process of accounting for costs including cost ascertainment, cost planning, cost control and decision making.

Cost unit: Cost unit is a unit or quantity of product, service or time in terms of which cost is expressed.

Cost centre: It may be a location, person or item of equipment or a group of these for which cost is ascertained and used for cost control.

Direct Material: The materials that can easily be identified with finished goods and directly allocated to a particular product are called direct material.

Indirect Material: The materials which cannot be conveniently traced and allocated as part of the product is called indirect material.

Direct Labour: The workers involved directly in the process of production are called direct labour.

Indirect Labour: The workers that are indirectly involved in process of production are called indirect labour.

Direct Expenses: The expenses other than direct material cost and direct labour cost are called direct expenses. These expenses are directly identifiable with the job or process or operation.

Indirect Expenses: The indirect expenses other than indirect material and indirect labour are called indirect expenses. These expenses cannot be charged to the product directly.

15. ANSWERS TO CHECK YOUR PROGRESS:

8. i. Direct; ii. Material, labour, expenses; iii. Decision making; iv. Physical.

13. i. b; ii. b; iii. c; iv. a; v. c

16. TERMINAL QUESTIONS/EXERCISES:

1. What is Cost Accounting? Discuss the advantages of Cost Accounting to the management.

2. What are the objectives of Cost Accounting?

3. State the differences between Cost Accounting and Financial Accounting.

4. Explain the components of total cost.

5. “There are various bases according to which costs are classified.” Explain the statement.

6. Calculate the prime cost from the following data

Materials consumed	12,000
Direct Expenses	100
Works Cost	15,600
Factory Overheads	75% of direct labour

(Answer: Prime cost = 14,100)

7. From the particulars of a manufacturing unit prepare a statement showing the following:

   i. Cost of materials consumed
   ii. Works cost
   iii. Cost of production
   iv. Percentage of works overhead to productive wages
   v. Percentage of general overhead to works cost.

Stock of materials on 1.1.20	40,000
Purchase of raw material in January, 2020	11,00,000
Stock of finished goods on 1.1.2020	50,000
Productive wages	5,00,000
Finished goods sold	24,00,000
Works overhead charges	1,50,000
Office and general expenses	1,00,000
Stock of materials on 31.1.2020	1,40,000
Stock of finished goods on 31.1.2020	60,000

(Answer: i.10,00,000, ii. 16,50,000, iii. 17,50,000, iv. 30%, v. 6.06%)

8. From the following calculate the Works Cost:

Materials Consumed	3,30,000
Direct wages	1,70,000
Direct Expenses	25,000
Factory Overheads are 50% of direct wages	
Opening work in progress	40,000
Closing work in progress	50,000

(Answer: *Rs. 6,00,000)*

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