5 Jan. 2022

Fundamentals Of Cost A/c

→ We have to know the four important Point under this chapter.

- Meaning of Cost.
- Meaning of Costing.
- Meaning of Cost Accounting.
- Meaning of Cost Accountancy.

Meaning Of Cost

1- Cost is the amount of Resources given up in exchange for some goods or Services.
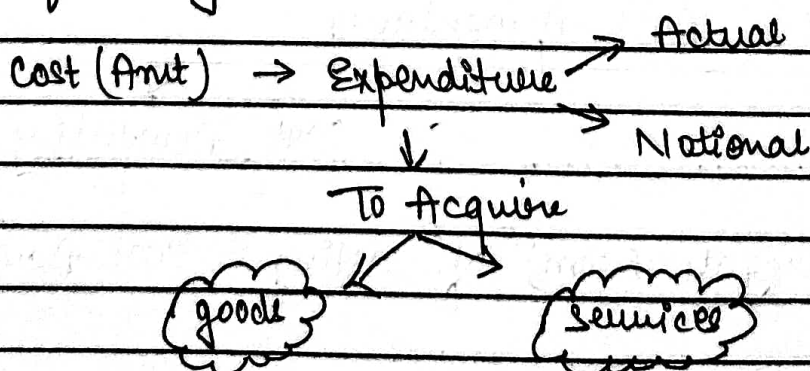
2- The Resources given up that Express in terms of money.

3- Cost is defined as the amt of Expenditure incurred. (actual or National)

- Actual Cost - Explicit Cost. जो & Hamari jeb se Nikal Ke Dusre ki jeb me chle jaye.

- National Cost- Implicit Cost. जो & Hamari jeb se Nikal Ke Hamari jeb me hi ajaye.
  Ex- Rent paid to own property.

Meaning Of Costing

Cost (Amt) → Expenditure ──→ Actual
                          ──→ National
              ↓
         To Acquire
          ↙   ↘
       goods   Services

- Technique, Method, Process used by CMA to findout cost. (ascertaing cost).
- It consists principles / and rules which govern procedure of ascertaing the cost of goods and services.

6th Jan, 2022

Meaning Of Cost Accounting

Cost Accounting

→ Recording (costing Journal Entries)

→ Classification (costing ledger a/c)

→ Summarising (costing T/B + costing P/L)

→ Appropriate allocation of Resources (sahi tarike se resources ko batna)

- Cost Accounting is an out of Recording, Classification, Summarising and Appropriate allocation of Resources. (for determination of cost of goods and services).

* Cost Records

Meaning Of Cost Accountancy

Cost Accountancy

Costing   Cost Accounting

- It is a Aggregate (sum) of Costing & Cost Accounting.

Cost Accountancy

Science

- Because It is a Systematic Body of Knowledge having certain principles Which a CMA should follow.

Art

- Principles, CAS (cost Accounting Standards) apply karne ke liye ability / Skill ki need hoti hai ek CMA ko.

Practice

- The continuous effort of the cost accountant in the field of cost accounting.

Cost Accounting Standards (CAS) → 24

CAS (3) → Overhead , O/h
CAS (10) → Direct expenses
CAS (7) → Direct Labour
CAS (6) → Direct Material.

Classification Of Cost

1- By Nature or Element
a- Material
b- Labour
c- Expenses.

2- By functions
a- Manufacturing and Product cost
b- Commercial Cost

3- By Degree of traceability to Product
a- Direct cost
b- Indirect Cost

4- By Change in Activity or Volume. (Behavioural analysis)
a- Fixed cost
b- Variable cost
c- semi-Variable cost.

5- By Controlability
a- Controllable Cost
b- Uncontrollable Cost.

6- By Relationship with Accounting Period
a- Capital Cost
b- Revenue Cost

7- By Time
a- Historical Cost
b- Pre-historical Cost.

8- According to Planning
a- Budgeted Cost
b- Standard Cost

9- By Association with Product
a- Product Cost
b- Period Cost

10- For Managerial Decision
a- Marginal Cost
b- Out of pocket cost
c- Differential Cost
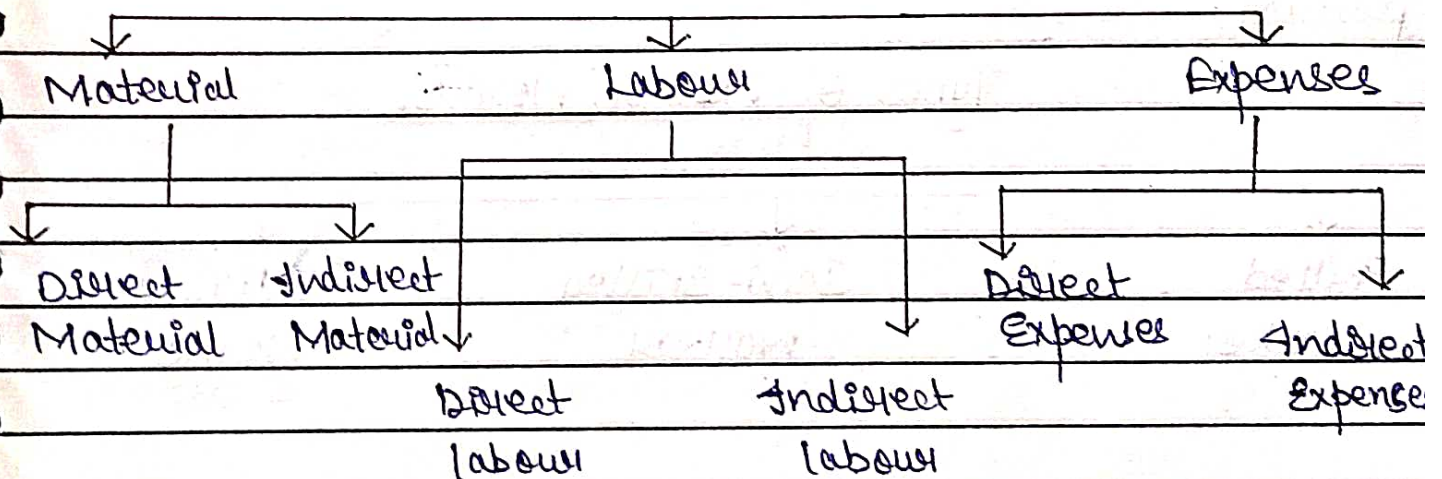d- Sunk cost
e- Imputed Cost / National
f- Opportunity Cost
g- Replacement Cost

11- By Normality
a- Normal Cost
b- Abnormal Cost

1- Element Of Cost (Cost incurred from production of goods)

Material	Labour	Expenses

Material:
Direct Material
Indirect Material

Labour:
Direct Labour
Indirect Labour

Expenses:
Direct Expenses
Indirect Expense

8- According to Planning
a- Budgeted Cost
b- Standard Cost

9- By Association with Product
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b- Period Cost
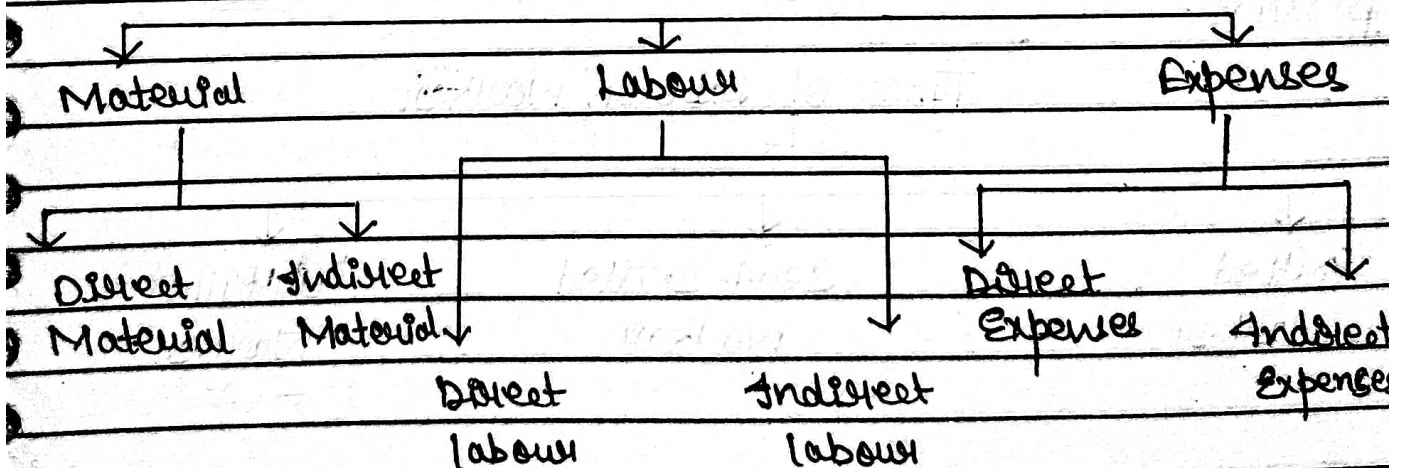
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1- Element of Cost (cost incurred from production of goods)

Material   Labour   Expenses

Direct   Indirect   Direct   Indirect
Material   Material   Expenses   Expenses

Direct   Indirect
labour   labour

- Direct Material + Direct labour + Direct Expenses
    = Prime Cost
- Indirect Material + Indirect labour + Indirect Expenses
    = Overhead cost (O/h).

7th Jan, 2022

1. Direct Material - Direct Material are those material which are
    → easily identified.
    → conveniently measure,
    → Directly charged to the product.
- Aisha material cost jisko hum (identified + measure + Directly charged) kar sakte hai usko Direct Material cost kaha jata hai.
    → Ek product ko Banane ke liye kya-kya material lgta hai usko hum Identified khte hai
    → Kitna Material chahiye isko hum measure khte hai.
    → Jab koi cost shirf ek Product par kharch hoti hai Directly charge to the product hoti hai.

2. Indirect Material - Indirect Material are those material which cannot conveniently/easily measure and It cannot be directly charged to product but It can be appartioned or absorbed In the product.

<u>Types Of labour/worker</u>

| Skilled worker | Semi-skilled worker | Unskilled worker |

3- Direct Labour - It refers to that labour which can be conveniently Identified, measure and directly charged to particular job. Wages paid to such labour are known as Direct labour / wages cost.

4- Indirect Labour - It refers to that labour which cannot be conveniently measure and identified and not directly charged to the particular product but It can be apportioned or absorbed.

5- Direct Expenses or Chargeable Expenses - are the expenses related to the manufacturing process or rendering services which can be easily identified.

Example - GST, Royalty, Supervision fees of Supervisor, cost of Rectifying defective work, Research and development cost / Experimental Cost.

6- Indirect Expenses - It refers to those Expenses which are not relating to man^n process or which cannot be charged directly to the product and cannot easily measure.

Example - Salary, factory rent, A/C fees, Audit, Rent, legal fees.

Calculating the Direct Material cost

Direct Material = Raw Material	≠	Direct Material = RM
cost	cost	Consumed	Consumed

Direct Material =	Opening	+ Net Purchase	+ Direct
Consumed	Stock		Expenses
		— closing stock	

Note- • If Direct Expenses is not given in question. then it will be treated as '0', zero.
• Meaning of DE in formula - ' Goods Ko Khasidne se lekar, factory lane tak ka Kharcha.

<p align="right">11th Jan, 2022</p>

2- By function

According to this classification cost are divided into two parts -

a- Manufacturing and Production Cost-
This is the total of cost involued manufacturing, construction and Fabrication of unit of production.

Manuf" &	=	Manuf"	+ Construction	+ fabrication
Prod" cost		cost	cost	cost

b- Commercial Cost -
This is the total of cost incurred in the operation of business undertaking other than manuf" and prod" cost.
(i) Administrative Cost.
(ii) Selling & distribution Cost.

i- Administrative Cost -

It refers to those Expenditure which is incurred in office is known as Administrative Cost.

Example- Office Rent, Office Staff Salary, Office General Exp^n etc.

ii- Selling & distribution Cost -

It refer to those Expenditure which is incurred in Selling and distribution of goods and services.

Example - Showroom Rent, Showroom staff salary $\bigg\}$ Selling delivery van/truck, driver salary $\bigg\}$ Distribution.

$$\begin{array}{ccc} \text{Commercial} & = & \text{Office \& Administration} & + & \text{Selling \& Dis.} \\ \text{cost} & & \text{Cost} & & \text{Cost} \end{array}$$

3. By Degree Of Traceability of the Product

According to this clasification total Cost is divided into two parts -

a- Direct Cost -

• It refer to that cost which can be easily identified, measured, directly charged to a particular product.

• In general sense, It refer to Cost related to manu^n and prod^n process.

Example- Raw material, labour, Carriage inward etc.

b- Indirect Cost -

• It refer to that Cost which cannot be easily identified and measure that cost are even not directly charged to product but It ~~cannot~~ can be

'Apportioned' or 'absorbed'.
- Basically. It is a cost related to commercial cost (administrative or selling cost).

Example- Manager Salary, Office Rent etc.

4. By Change in Activity or Volume

Variable	Fixed	Semi-Variable
cost	cost	cost

a- Fixed Cost -
Ashi cost jo Hamesha Constant Rhti hai. production/ unit ko Badane ya ghatane se us cost par koi bhi effect nhi padta toh vo cost fixed cost mani jyegi.

Example- Office Rent, factory Rent.

b- Variable Cost -
. Ashi cost jo production ko Badane se Bad jaati hai aur production ghatane se ghat jaati hai, vo cost Variable cost mani jaygi.

Example- Raw material, labour.

c- Semi-Variable Cost -
Ashi Cost jisme kuch part variable ho aur kuch part fixed ho. usko Semi-Variable cost khte hai.

Note.- kisi bhi cost ko variable cost tabhi mana jayega agar uski cost per unit har volume of output par same ati hai toh.

$$\text{Cost per unit} = \frac{\text{Total cost}}{\text{Total unit}}$$

12th Jan, 2022

$$\text{Semi-Variable} = \text{Fixed} + \text{Variable}$$
$$\text{Cost} \qquad \text{cost} \qquad \text{cost}$$

How to find Variable & fixed Cost in Semi-Variable cost

Example - ①

	A	B	
Unit	500	900	✓ Variable Cost
Cost	82,500	148,500	
Cost / Unit	165	165	

②

	A	B	
Unit	500	550	✓ Fixed Cost
Cost	50,000	50,000	

③

	A	B	
Unit	500	800	✓ SemiVariable Cost
Cost	50,000	60,000	
Cost / Unit	100/unit	75/unit	

Step-①. Variable Cost / Unit $= \dfrac{\text{Change in Cost}}{\text{Change in Unit}}$

$$= \frac{10,000}{300}$$

$$= 33.\overline{33} / \text{unit}$$

(agr a/p Volume ko 1 unit se Badate ho toh apki cost ₹33.33 se Badyegi).

Step-②. Total Variable Cost $= 500 \times 33.\overline{33}$

$$= 16,666.66$$

Step ③. Semi-Variable Cost = VC + fC

$$50,000 = 16,666.66 + fC$$

$$fC = 33,333.33$$

④

	A	B	
Unit	40	60	
Cost	7000	10,000	
cost /unit	$\frac{7000}{40}$	$\frac{10,000}{60}$	

Variable cost/unit = $\frac{3,000}{20}$ = 150/unit

V.C = 150 X 40 = 6000

S.VC = VC + fC

7000 - 6,000 = fc

1,000 = fc

⑤

	A	B	
Unit	200	400	
Cost	50,000	80,000	

Variable cost/unit = $\frac{30,000}{200}$ = 150/unit

Variable cost = 200 X 150

= 30,000

Semi-variable = Variable cost + fixed cost

$$50,000 = 30,000 + x$$

$$x = 20,000$$

fixed cost = 20,000

5. By Controllability

a- Controllable Cost -
- It refers to those cost which can be influenced by action of a specified member of an undertaking.
- Cost which are atleast partly with the control of the management.
- Generally all direct cost included D.M, D.L & D.E.
- Some of the Overhead Expenses are controllable by the lower level of Management.

b- Uncontrollable Cost -
- It refers to those cost which cannot be influenced by the action of a specified member of undertaking.
- In another world, cost which are not within the controll of management.
- Most of the fixed cost are uncontrollable.

6. By Normality

a- Normal Cost -
Normal cost are those cost which are regular or Normal incurred and incurred in the Normal condition. The Burden of Normal Cost is transfer to Customer. It means it is added to cost of sale.

b- Abnormal Cost -
Abnormal cost are those cost which are irregular or unusual, which are incurred only due to abnormal situation of the operation. The Burden of this is not

transfer to customer. It is not added to cost of Sale but its charge to company costing P&L.

7- By Relationship with Accounting Period

a- Capital Cost / Capital Expenditure -
The cost which is incurred in purchasing of assets either income or to increase the earning Capacity of the business. The benefit of Capital cost is acquiring over the No. of period. i.e. more than one year.

b- Revenue Expenditure / Revenue Cost -
Expenditure incurred in order to maintained the earning capacity of business such as Cost of Repair & Maintan. of Asset. The benefits of Revenue cost is consume in 1 year.

8- By Time

a- Historical Cost -
The cost which are ascertained after being incurred are called Historical cost. Such cost are available only when the production of a particular thing has already Been done.

b- Pre-determined cost -
Such cost are estimated cost ie. computed in advance. before the production of a particular product is start. It is done on the basis of various cost affecting the production such as RM, Labour, DE etc.

9. According to Planning & Control

a- Budgeted Cost -
- It is a forcasted future expense that the company is expected to incurred in the future.
- It refer to a department or a company project or as a whole.

b- Standard Cost -
- It refer to a project amt per unit of product. per unit such as D.M, D.L, DE & overhead.
- In Simple woards, It refer to a specific cost per unit.

→ Standard & Budgeted cost are pre-determined cost.

Example-① Budgeted C - 100 car Banane ka Expense.
Standard C - 1 car Banane ka Expense
(Estimate = per unit cost)

10. By Associate with the Product

a- Product Cost -
- are the cost that are incurred to create a product that is intended for sale.
- product cost include - D.M, D.L, DE & o/h.
- In Simple words, PC are the cost directly incurred from many" process.

b- Period Cost -

- Period cost are incurred on the basis of time such as Rent / salary etc.
- Product cost are the cost which is necessary to manf" a product, while period cost are non-manf" cost that are incurred with in an accounting period. (manf" cost ke siwa jo expense hua vo period cost mana jayega)

11- For Managerial Decision

a- Marginal cost
b- Out of Pocket Cost
c- Differential cost
d- Opportunity cost
e- Imputed / Notional cost
f- Replacement cost
g- Avoidable cost / unavoidable cost
h- Sunk cost

17th Jan, 2022

a- Marginal Cost -

- Ek additional unit ko Badane se jo additional cost incurred hogi usko marginal cost khnge.
- Marginal cost is total / sum of all variable cost.

Marginal Cost	=	Direct Mat.	+	Direct Labour	+	Direct Exp	+	Variable O/h
		Marginal cost	=	Prime cost		+ Variable Cost		

b. Out Of Pocket Cost -
Is a direct payment of money that may or may
not be later reimbursed from the third party.
It is paid during the current period or current project.
Reimbursed - Jeb hum current time kai payment krdete
hai or usko fhir third party se recover krte hai
usko reimbursed krte hai.

C- Differential Cost
• The change in cost due to change in level of Activity
or pattern or method of production is known as DC.
• If the change increase the cost It will be known as
Incremental Cost.
• If the change decreases the Cost It will be known as
Decremental Cost.

	Differenential Cost = $\dfrac{\text{Change in Cost}}{\text{Change in unit}}$	

d- Imputed or Notional Cost
The chartered Institude of Management Accountant
[CIMA - London]

Notional Cost - The value of Benefit when no actual cost
is Incurred " even through such cost do not involve
only cash outlay but are taken into consideration
while making managerial Decision.

e- Replacement Cost
• is the price that an entity would pay to Replace
an existing asset at current market price with
a similar Asset.

• After Replacement jo Cost pay karna Pde. (against asset).

f- Avoidable and unavoidable Cost-
• Avoidable cost - are those cost which can be eliminated if a particular product or department with which they are directly related is discontinue.
• Unavoidable Cost - are those cost which cannot be eliminated with particular discontinued of production.
Example - fixed Cost - Rent.

g- Sunk cost -
• Sunk Cost means the cost which continue to occur with the same amt In each alternative course of action and also continue to occur with the same amt amount when there is no alternative course of action.
• Sunk Cost are that an entity has Incurred which it no longer Recover.
• Sunk Cost is not relevant for decision making.
• Also known as Stranded Cost.

h- Opportunity Cost-
means benefit to be loose which would have been realised from next best alternative but due to acceptance of offer we have to loose it.
Cost is not only the Expense but it Includes the benefit to be lost which is known as opportunity cost.

| Opp. cost = Expense + Benefit to loose |

Types Of Costing

1- Uniform Costing -
It is the use of some costing principles and/or practices by several undertaking.

2- Marginal Costing -
It is the ascertainment of Marginal cost by differentiation b/w fixed & variable cost.

3- Standard Costing -
A comparison is made of the actual cost with a pre-arranged standard cost. and the cost of any deviation called "Variance".

4- Direct Costing -
It is practice of charging all direct cost, variable cost and some fixed relating to operation, processes or product.

5- Historical Costing -
It is ascertainment of costs after they have been incurred. It aims at ascertaining cost actually incurred on work done in past.

6- Absorption Costing -
It is the practice of charging all cost, both variable or fixed cost.

Methods Of Costing

Costing method are those which help a firm/Business to compute the cost of production or service offered by it.

1- Job Costing -
- Job costing method is used in the firm which work on the basis of Job work.
- There are some organisation, they produce according to Requirement and specification of customer.
- Each Job may be different from other one.
- Production is only on specific order and there is no is pre-determine production.

2- Batch Costing-
- Batch costing is a form of Job costing.
- This method of costing in those firm where production are made on continuous basis.
- Each unit coming out is uniform in all respects and production is made prior to the demand.

Example- Pharma company, Toy company.

3- Operating Costing- (Service Costing)
- This type of costing Method is used in the Service sector to work out the cost of service offered to the customer.

Example- Hotel, Hospital, Institute.

4- Process Costing-

It is a method of costing used mainly in manf"
where unit are continuously produce through
one or more process.

Example- Stell.

5- Contract costing-

• This method of costing used in Construction Industery
to work out the cost of contract undertaken.
• Contract costing is actually similar to job costing,
but the difference is one construction take several
months and year in completion. In job costing each
job may be complete in short period.

6- Multible costing-

This method of costing is used for those company
where more than one costing method is apply.

Example- Aircraft manf" → Process costing
                              → Job Costing

        Bicyele → Process + Batch costing

7- Joint Costing -

Ashi company jaha par one Raw material dalane
se 1 se jayada output Nikal aye usme joint
costing lgti hai.

Example- Coude Oil → Petral
                    → Kerosene
                    → Diesel

Cost Object

- Cost object is a technical name for a product or service, a project, a department.
- At a Broader level, the cost object may be named as 'Cost centre', whereas at a lowest level it may be called as 'Cost Unit'.

Cost Centre are of two types -

i- Personal Cost Centre-
Consists of a person or a grp of person.

ii- Impersonal Cost Centre-
Consists of a location, a equipment, or a grp of equipment.

Cost Unit

- Yhe ek Base hota jiske Base per hum Cost ko calculate kerta hai.

→ Automobile - Cost per car

→ Hotels - Cost per room

→ Cement - cost per Bag

→ Electricity - kilowatt per hour.

20 Jan, 2022

Cost Sheet

Meaning of Cost Sheet
- Cost Sheet is a Statement
- Design to Show the output of a particular accounting period along with
- Breakup of Cost
- The Data Incorporated in Cost Sheet are collected from Statement of Account which have been written in Cost A/c, either day-to-day or regular period.
- The info. to be incorporated in a Cost Sheet would depend upon the requirement of management for the purpose of control.

Explaination -
- Cost Sheet ek statement hai
- Jo bnayi jati hai har ek particular accounting period me.
- Cost sheet bnane ka purpose, Cost the breakup karna hota hai. Aur total cost ~~of product~~ Nikalna bhi hota.

-calendar year - 1 J to 31 D
financial year - 1 A to 31 M

Example -
factory Rent	- factory O/H
office Rent	- Office & Adm. O/H
showroom Rent	- S & D O/H
Driver Salary	- S & D O/H

- Jo bhi information Cost Sheet me dala fyega, usko hum financial accounting se liya jata hai.
- Jo info. Cost Sheet me dali fyegi. vo management ke requirement ke hisab se dali fyegi. jisse management control kar paye.

The following items are Not included in Cost Sheet

1- Income tax - Not Included in Cost Sheet.

2- Dividend to shareholder.

3- Premium on Redemption on Share / debentures.

4- Capital loss.

5- Interest on loan or debentures or Bank interest.

6- Donation.

7- Capital Expenditure.

8- Discount on Share and debentures.

9- Commission to Managing Director.

10- Written off goodwill and preliminary Expenses.

11- Reserve for Bad debts.

12- Transfer of all reserves or appropriation of profit.

13- Share premium.

14- Interest on capital.

15- Drawing of properitor.

16- All personal Expenses of owner.

17- Underwritter commission. (guarantee dete hai share subscribe karvane ke liye).

21 Jan, 2022

Format Of Cost Sheet

Particulars	Amount(₹)
Direct Material	XXX
+ Direct Labour	XXX
+ Direct Expense	XXX
Prime Cost	XXXX
+ Factory Overhead (work O/H)	XXX
Gross factory cost (work cost)	XXXX
+ Opening Stock of W.I.P	XXX
(-) Closing Stock of W.I.P	(XXX)
(-) Sale of scrap Net factory Cost (Total f cost)	XXXX
+ Office & Administration O/H	XXX
(cost of manf" good) Cost of production	XXXX
+ Opening Stock of finished goods	XXX
(-) Closing Stock of finished goods	(XXX)
(Goods ready for sale) Cost of goods sold (COGS)	XXXX
+ Selling & Distribution O/H	XXX
Cost of Sale (Total Cost)	XXXX
+ Estimated Profit	XXX
Sale	XXXXX/

Expenses Included in factory OH

- Indirect Material
- Loose tools
- Indirect Wages / Labour
- factory Rent & Rates
- Lighting & Heating (F)
- Power and fuel (F)
- Repair & maintainance (F)
- Drawing office Expense
- Research & Development (F)
- Depreciation in P&M
- factory Insurance
- Work manager salary.

Expenses Included in Office & Administration OH

- Rent & Rates (O)
- Salary (O)
- Insurance (O)
- Telephone & Postages
- Printing & Stationary
- Dep^n on fuel. & any other Equipment.
- Legal Expenses
- Audit fee
- Bank charges.

Expenses Included in Selling and Distribution OH

- Showroom Rent
- Salesman Salary & Commission.
- Travelling Exp.
- P&S → Showroom
- Advertisement
- Postage (showroom)
- Collection Expenses
- Carriage Outward
- Dep^n on Delivery Van.
- Sample & gift.

Cost Accounting Standards (CAS)

There are total 24 CAS.

CAS-1- Classification of Cost.

CAS-2- Capacity determined. (ek entity ke pas kitni capacity hai goods produce au service rendered karne ke liye)

CAS-3- Production and operation overhead. (determine cost of goods produced).

CAS-4- Captive consumption. (•determination of cost of production, •determination of cost of Acqusition, •determination of cost of goods supply, •determination of cost of service supply.)

CAS-5- Average cost of transportation. (determine cost of transportation)

CAS-6- Material cost (determine Material cost).

CAS-7- Employee cost / labour cost (determine labour cost).

CAS-8- Cost of Utility (determination of cost of product ou service)

CAS-9- Packing Material cost.

CAS-10- Direct Expense.

CAS-11- Administration OH.

CAS-12- Repair and Maintenance.

CAS-13- Cost of Service Cost Centre.

CAS-14- Pollution Control Cost.

CAS-15- Selling and distribution Overhead.

CAS-16- Depreciation and Amortisation.

CAS-17- Interest and financing charges.

CAS-18- Research and Development cost

CAS-19- Joint Cost

CAS-20- Royalty and Technical know-how fee.

CAS-21- Quality control.

CAS-22- Manufacturing Control.

CAS-23- Overburden Removal cost.

CAS-24- Treatment of Revenue In Cost Statement.

Classification Of Fixed Costs

1- Committed Cost -

• Committed cost are fixed or budgetd or confirmed payment to be made in future to the vendar for few goods or services to be taken.

Example - Company - Buy a Machine - ₹ 100,000
$$\text{contract} \to \text{Repair \& machine @ } 2500 \to (5\text{yrs})$$
$$\text{Cost} = 100,000 + (2500 \times 5)$$
$$= ₹ 112,500$$

2- Policy and Managed Cost -

• Policy cost are incurred for implementation of some managerial/ment Policy. These cost arise from some policy decisions.

• Managed cost are incurred to ensure the operating Existence of the Company.

Example - Staff service.

3- Discretionary Costs -

• These costs are not related to the operation, but can be controll by the management. These cost arise from some policy decision- New Researches, Advertisement.

4- Step Cost -

• Such cost are constant for a given level of output and then increase by a fixed amount at a higher level of output.

Example- Rent of Warehouse.