

CHAPTER I. CLASSIFICATION OF COSTS AND COST SHEET

WHAT IS COST ?

- Cost is a measurement in monetary terms,
- Of the amount of resources used
- For the purpose of Production of goods or Rendering Services.

WHAT IS COSTING?

- Costing means The technique and process of
- Ascertainment of costs.

WHAT IS COST ACCOUNTING?

- The process of
- Recording, Classification, Allocation, Reporting
- And Control of costs.

FEATURES OF GOOD COSTING SYSTEMS

- Informative and simple
- Accuracy
- Support from Management
- Cost Benefit Analysis
- Precise Information i.e. unnecessary details to be avoided.

DIFFERENCE BETWEEN FINANCIAL ACCOUNTING AND COST ACCOUNTING

FINANCIAL ACCOUNTING (FA)	COST ACCOUNTING (CA)
➤ FA records, reports and analyses financial transaction of a concern.	CA records, reports and analyses cost of each cost Centre of a concern i.e. whether it is Direct cost or Indirect cost.
➤ FA is used even by outside entities. e.g. – investors, creditors, bank etc.	CA is used only by the management of the concern.
➤ FA uses the double entry system for recording financial data.	CA does not use the double entry system for Collecting cost data.
➤ FA results are shown in profit and loss a/c And Balance Sheet.	CA results are shown in costing profit and loss And Cost Sheet.

➤ **FA discloses past data.**

CA discloses current data or future estimates.

➤ FA can not be used for Managerial decisions.

CA is used for making decisions.
e.g. pricing decisions, how much to produce etc.

ELEMENT OF COST

DIRECT COST



- DIRECT MATERIAL COST
- DIRECT LABOUR COST
- DIRECT EXPENSES

INDIRECT COST



- FACTORY OVERHEADS
- OFFICE/ADMINISTRATION OH.
- SELLING & DISTRIBUTION OH.

✓ Direct cost total is to be referred as PRIME COST.

PRO- FORMA OF COST SHEET

STEP	ELEMENT OF COST	Rs.	Rs.
A.	DIRECT MATERIALS		
	Opening stock of Raw materials	xx	
	Add: Purchase of Raw materials	xx	
	Expenses on Carriage or Freight etc.	xx	
	Less: Purchase Returns of Raw materials	(xx)	
	Closing Stock of Raw materials	(xx)	
	Net Materials Consumed		xx
B.	DIRECT WAGES/ DIRECT LABOUR		XX
C.	DIRECT EXPENSES [Royalty based on production, Hire charges for special tools and Equipment, Product Designing Charges]		XX
D.	PRIME COST		XXX

STEP	ELEMENT OF COST	Rs.	Rs.
E.	WORK OVERHEADS/ FACTORY OVERHEADS	XX	
	Less: Sale of scrap	(xx)	
		xx	
	Work in progress:		
	Add: Opening stock	xx	
	Less: Closing stock	(xx)	xx
F.	WORKS COST		XXX
G.	OFFICE/ADMINISTRATIVE OVERHEADS		XXX
H.	COST OF PRODUCTION		XXX
I.	Finished Goods:		
	Add: Opening stock		xx
	Less: Closing stock		(xx)
J.	COST OF GOODS SOLD		XXX
K.	SALES/DISTRIBUTION OVERHEADS		XXX
L.	COST OF SALES		XXX
M.	Add: Profit		xxx
N.	SALES		XXX

CALCULATION OF UNITS PRODUCED (U.P.)

PARTICULARS	UNITS
Closing stock (FG)	XX
Add: Units Sold	XX
	XXX
Less: Opening stock (FG)	XX
UNITS PRODUCED	XXX

CALCULATION OF UNITS SOLD (U.S.)

PARTICULARS	UNITS
Opening stock (FG)	xx
Add: Units Produced	xx
	xxx
Less: Closing stock (FG)	xx
UNITS SOLD	xxx

FORMULA TO CALCULATE VALUE OF CLOSING STOCK OF FINISHED GOODS

- Value of closing stock of FG:

$$= \text{Cost of production} \times \frac{\text{Units of closing stock of FG}}{\text{Units Produced}}$$

THEREFORE, Value of closing stock of finished goods is calculated on the basis of Cost of production Per Unit.