

# Unit – I

## Elements of Cost & Cost Sheet

### Elements of Cost

For the purpose of preparing financial accounts, the expenditure of a business is recorded under various accounts suitable from the view-point of final accounts. Expenditure is identified with the total turnover or income, but no detailed information is afforded of the exact manner in which the net profit or loss has been made. But under cost accounts, the expenditure is analysed by different methods and in a greater detail. The broad headings, under which the total expenditure is analysed, are known as the 'elements of cost' and they are :

- (1) Direct Material, (2) Direct Labour, (3) Direct Expenses and,
- (4) Indirect or Overhead Expenses.

## Elements of Cost

1. **Direct Material** (Process Material, Production Material or Prime Cost Material)
2. **Direct Labour** (Direct Wages, Process Labour Cost, Prime Cost Labour, Operating Labour Cost)
3. **Direct Expense** (Chargeable Expenses: Process Expenses, Productive Expenses, Prime Cost Expenses)
4. **Indirect Expense** (Overhead Expenses or On-Cost)



#### 4. Overhead or On-Cost

Expenses of a general nature, not capable of being directly attributable or chargeable to any particular job or order or unit of cost, are termed as overhead expenses. They are incurred in respect of services rendered to production as a whole e.g. factory rent, time keeper's wages etc. Thus, these are the expenses over and above the cost of direct material, direct labour direct expenses. It is defined in Terminology of Cost Accountancy as-

The aggregate of **Indirect Material Cost, Indirect Wages and Indirect Expenses** and by the word 'indirect' in this connection it is meant, 'that which cannot be allocated, but which can be apportioned to or absorbed by cost centres or cost units.'

(a) **Indirect Materials** : Materials which cannot be allocated but which can be apportioned to or absorbed by cost centres or cost units, such as lubricants, cotton waste, brick and cement used in maintenance of building, stores used by service department. Even though some of the materials form part of the product, they are used in such small quantities or are of so small value that it is preferred to treat them as indirect material e.g. thread used in clothes or nails used in furniture or glue used in cardboard boxes etc.

(b) **Indirect Labour** : The labour which does not affect the construction or the composition of the finished products is treated as indirect labour. Wages paid or payable to such labour cannot be attributed or allocated to a particular product but they are apportioned to or absorbed by cost centres or cost units on some reasonable basis. Time-keeper's wages, wages of factory clerks, employees in service departments etc.

(c) **Indirect Expenses** : These expenses are so general in nature that they are not incurred for any particular product or service. As such these expenses cannot be allocated but they are apportioned to or absorbed by cost centres or cost units. Examples of such expenses are Rent and Insurance of Building, General Manager's Salary, Telephone Expenses, Printing & Stationery etc. Overheads are sub-divided as :

(i) **Factory Overhead** : Expenses which are incurred in respect of factory such as factory rent, factory insurance, depreciation of factory building and machinery etc.

(ii) **Administrative Overhead** : Expenses incurred by the administrative office, such as staff salaries, depreciation and repairs of office building, printing and stationery etc.

(iii) **Selling and Distribution Overhead** : Expenses relating to sales and distribution such as advertisement, godown rent, carriage outward, delivery-van expenses and depreciation.

By grouping the elements of cost, Division of Total cost is made as



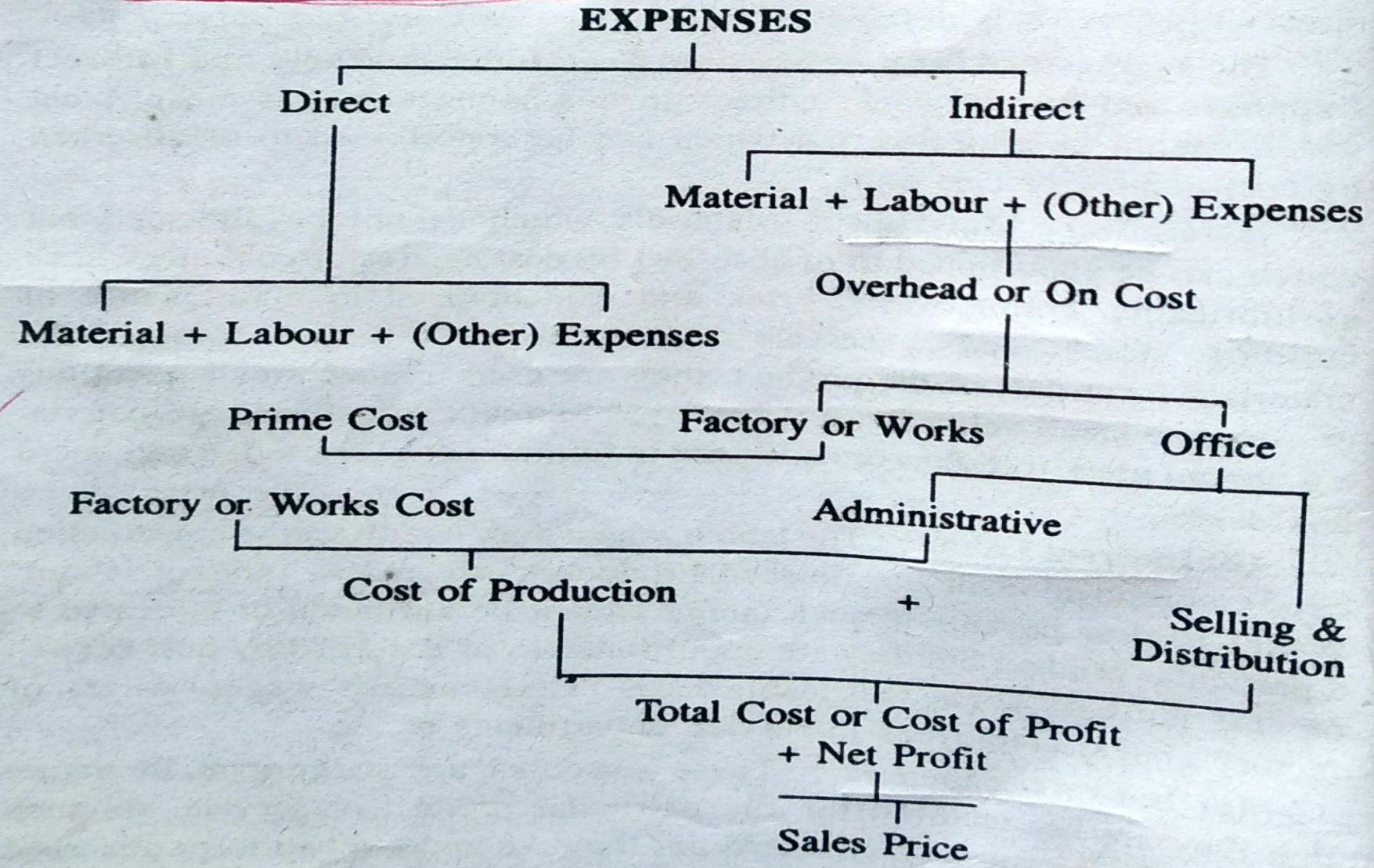
shown below :

1.  $\text{Direct Material} + \text{Direct Labour} + \text{Direct Expenses} = \text{Prime Cost}$ .

2.  $\text{Prime Cost} + \text{Factory overhead} = \text{Factory Cost or Works Cost}$ .

3.  $\text{Factory Cost} + \text{Office Overhead} = \text{Cost of Production}$ .

4.  $\text{Cost of Production} + \text{Selling and Distribution Overhead} = \text{Total Cost or Cost of Sales}$ .





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Cost Sheet.

Cost Sheet -		Total Cost	Cost per unit
Particulars		RS.	RS.
op. stock of Raw material			
Add: purchases of Raw material			
+ exp. Related to purch. of Raw. m.			
(Carriage Inward, octrio, freight)			
Less: cl. stock of Raw material			
Less: sales of scrap of Raw material			
	Material Consumed	-----	-----
Add: Direct Labour / Wages / productive wages		-----	-----
Add: Direct Overheads / exp.		-----	-----
	prime Cost.	-----	-----
Add: <u>Factory Overheads / Factory on cost / Works on cost</u>			
Repairs, Depn on P & M, Factory Building & Loose Tools.			
Repairs on exp. Related to Factory Assets			
All Factory exp.			
* Drawings office salary (Diagram ka likhane ka kaam)			
Indirect Wages.			
Time keepers Wages			
Store keeper wages			
Motive power			
All exp. treated as a factory			
(Factory rent, Lighting, salary) Insume, RAKS			
Add: op. stock of Work in progress			
Less: cl. stock of " "			
Less: sale of scrap			

Add: <u>Office / Administrative Overheads</u>		
All exp. Related to office		
Rep. & Repairs on All Assets other than factory Assets.		
All office exp. - Salary, Rent, Ins. pr. test, postage,		
Telegram Telephone		
* Counting house salary		
	Cost of production	-----
Add: op. stock of finished Goods		
Less: cl. stock of finished Goods		
	Cost of Goods sold	-----
Add: <u>Selling &amp; Distribution Overheads</u>		
Carriage Outward, Advt., Salesmen salary		
Salesmen Commission, Baddebts, Delivery van exp.		
Travelling exp. other exp. Related to selling &		
Distribution of Goods. Rent of ware house		
	Total Cost of Sales	-----
Add: <u>Profit</u> (Bal. fig.)		
	Sales	-----



Purely financial exp. Not considered while preparing cost sheet  
All Appropriations made out of profit &  
Items written off as well as other financial exp.

Loss on sale of Assets

Dis. on Issue of Debentures, Shares, Bonds.

Interest on loan, Debentures, Deposits.

Cost of Issue of Shares, Debentures Bonds

Share trustee exp.

Fine & Penalty.

Donations & Charities

Income Tax & Super tax paid

Dividend paid

Provisions made for various Reserve

R.D.D., Capital Reserve, General Reserve.

All Reserve.

Items written off

written off exp. - preliminary exp - Dis. on Issue.

written off - fictitious Assets.

Underwriters Commission (Related to Debentures)

Directors Fees.

(exp Not Related to Business)

**Thank u**