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3 TIMES SINGLE DIGIT RANK (INCLUDING RANK 1)



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Tribute to
My Beloved Elder Brother

Sachin Garg

(Inspiration for me and all my students)
who left for heavenly abode on **3rd May, 2015**

“ — Rahul Sir — ”
Always Believes That

“ If You Want
To Be A Lion,
You Must Train
With Lions. ”



CA RAHUL GARG



Know Your Mentor CA Rahul Garg



Cleared all the 3 Professional courses

CA, CS, CMA
at the age of
22 years 7 months
with Ranks



**5 times
All India Rankholder**
in Professional Exams
(A Record).

**Scored
SINGLE DIGIT
RANK 3 times**
(including
All India Rank 1).

**Achieved exemption
in 40+ papers
out of total 50 papers**
held by CA, CS, CMA
institutes in his
academic career.



**Awarded by
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beyond their limits.



**Covered by the
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'Career 360 - Outlook
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(across all streams)
in 2010.

Specialist in
Time management
and
Stress management
skills.



CA RAHUL GARG

Love For the Subject Adv. Acc., Cost & FM Sm

**Only one in India
to cover maximum
Practical Questions in
Cost, FM, Accounts.**

**Only one in India
to give Homework
for all Practical
Subjects**
(to instill discipline and
confidence) and
check the same even
in online class.

**Tabular and
Diagrammatic
presentation of
Theory to create
interest.**

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last minute revision.**

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RANK Certificate for All India Rank-41
(May 06) in CA PE II Exam (now CA Inter)

Roll No. 07389



The Institute of Chartered Accountants of India

Rank Certificate

This is to certify that

RAHUL GARG

has passed the

Professional Education Examination - II

held by

The Institute of Chartered Accountants of India

in the month of **MAY, 2006**

and that he/she obtained **FORTYFIRST** rank

in that Examination.

Date 29th JULY, 2006


Joint Secretary
(Examinations)

RANK Certificate for All India Rank-4
(June 08) in CS Inter Exam



The Institute of Company Secretaries of India
IN PURSUANCE OF PROFESSIONAL EXCELLENCE
Secretaryship being under an Act of Parliament

Certificate of Merit

This is to certify that

RAHUL GARG

has passed all the papers of the

INTERMEDIATE EXAMINATION

of Company Secretaryship held in the month of

JUNE, 2008

and has secured

FOURTH RANK

in the order of merit in the said examination.

Date of Issue : 1st December, 2008
Roll Number : 12715
MC Number : 473


Authorised Signatory


Secretary & CEO

RANK Certificate for All India Rank-13
(June 09) in CS Professional (Final) Exam



THE INSTITUTE OF Company Secretaries of India
IN PURSUANCE OF PROFESSIONAL EXCELLENCE
Secretaryship being under an Act of Parliament

Certificate of Merit

This is to certify that

RAHUL GARG

has passed all the papers of the

PROFESSIONAL PROGRAMME EXAMINATION

of Company Secretaryship held in the month of

JUNE, 2009

and has secured

THIRTEENTH RANK

in the order of merit in the said examination.

Date of Issue : 11 January, 2010
Roll Number : 57870
MC Number : 1,053


Authorised Signatory


Secretary & CEO

Institute's Gold Medal for All India Rank-1
(June 08) in CMA Inter Exams

NRS/012986 No. 19



The Institute of Cost and Works Accountants of India

This is to certify that

Rahul Garg

has been awarded the following prizes for his having passed the

Intermediate Examination of the Institute of Cost and Works Accountants of India held in June 2008.

NAME OF THE PRIZE	PRIZE AWARDED FOR
Institute's First Prize for General Proficiency	Local Merit for securing the highest total marks without exemption in Intermediate (Revised) Examination - June 2008
G. Indira Devi Educational Gold Medal	For securing the highest total marks without exemption in Intermediate (Revised) Examination - June 2008
U.N. Sri Memorial Cash Prize	For securing the highest total marks without exemption in Intermediate (Revised) Examination - June 2008
A.K. Bhowmik Memorial Book Prize	For securing the highest total marks without exemption in Intermediate (Revised) Examination - June 2008
Nataraj Gopalakrishnan Memorial Book Prize	For securing the highest total marks without exemption in Intermediate (Revised) Examination - June 2008
U. Shankar Memorial Book Prize	For securing the highest total marks in Group - A of Intermediate (Revised) Examination - June 2008

Given under the Common Seal of the Institute of Cost and Works Accountants of India, this Twenty eighth day of January 2009.




President

RANK Certificate for All India Rank-1
(June 08) in CMA Inter Exams

Regn. No. NRS/012986



The Institute of Cost and Works Accountants of India

This

Rank Certificate

is awarded to

RAHUL GARG

for his/her having passed in one sitting all the subjects of the

Intermediate Examination of The Institute of Cost and Works Accountants of India held in the month of June 2008 and for his/her having secured the First Rank.

Given under the Common Seal of The Institute of Cost and Works Accountants of India, this Twenty fourth day of August, 2008.




President

RANK Certificate for All India Rank-3
(June 09) in CMA Final Exams

90187 Regn. No. NRS/012986



The Institute of Cost and Works Accountants of India

This

Rank Certificate

is awarded to

RAHUL GARG

for his/her having passed in one sitting all the subjects of the

Final Examination of The Institute of Cost and Works Accountants of India held in the month of June 2009 and for his/her having secured the Third Rank.

Given under the Common Seal of The Institute of Cost and Works Accountants of India, this Twenty Ninth day of August, 2009.




President
(G. N. VENKATARAMAN)

A SPECIAL THANKS TO MY BIGGEST STRENGTH,

My wife Shikha Garg



Who Has always
been my Side in
all the Challenges.

This publication could
not have been possible without her.

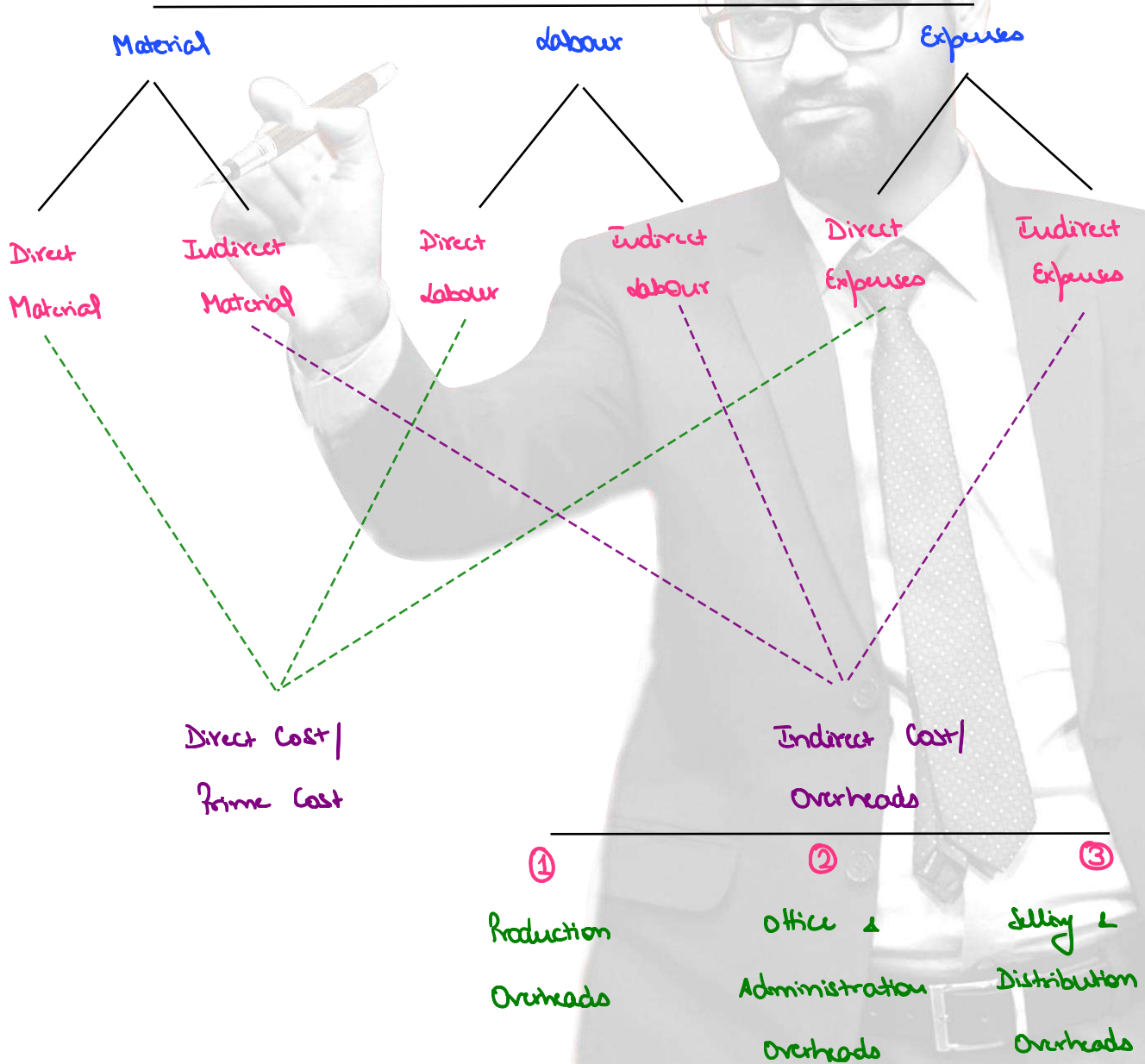
INDEX

S.No.	CHAPTER NAME	PAGE No.
1	Cost Sheet	1 - 4
2	Material Costing	5 - 12
3	Labour Costing	13 - 17
4	Overheads	18 - 24
5	Budgetary Control	25 - 28
6	Job and Batch Costing	34 - 36
7	Process Costing	37 - 42
8	Joint & By Product	43 - 45
9	Standard Costing	46 - 50
10	Marginal Costing	51 - 54
11	Reconciliation of Cost & Financial A/c	55 - 56
12	Integral & Non-Integral System	57 - 59
13	Service Costing	60 - 61
14	Activity Based Costing	62 - 62

COST SHEET

CONCEPT

CLASSIFICATION OF EXPENSES



If written

: Indirect Material

: Indirect labour

CONCEPT**COST SHEET (NEW FORMAT)**

S.No.	Particulars	Total Cost	Cost per unit
1.	Direct Materials Consumed		
2.	Direct Labour		
3.	Direct Expenses		
4.	Prime Cost (1 + 2 + 3)		
5.	Works Overheads		
6.	Gross Factory Cost on FG & WIP (4 + 5)		
7.	Opening Stock of Work-in-progress		
8.	Closing Stock of Work-in-progress		
9.	Net Factory Cost on FG (6 + 7 - 8)		
10.	Quality Control Cost		
11.	Research & Development Cost		
12.	Administration Overheads (relating to production activity)		
13.	Less : Credit for Recoveries/ Scrap/ By-Products/ Misc. income		
14.	Add : Packing Cost (Primary)		
15.	Cost of Production (9 + 10 + 11 + 12 - 13 + 14)		
16.	Opening Stock of Finished Goods		
17.	Closing Stock of Finished Goods		
18.	Cost of Goods Sold (15 + 16 - 17)		
19.	Administrative Overheads (General)		
20.	Marketing Overheads (Selling & Distribution Expenses)		
21.	Cost of Sales (18 + 19 + 20)		
22.	Profit		
23.	Sales (21 + 22)		

(i) Opening stock of RM
 + Purchases of RM
 - Purchase Return of RM
 + Carriage Inwards
 - closing stock of RM

} - ABL of RM
 } - NL Scrap of RM

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CONCEPT PRIME COST VS. FACTORY COST VS. CONVERSION COST

	Prime Cost	Conversion Cost	Factory Cost
Direct Material			
Direct Labour			
Direct Expenses			
Factory Overheads			

CONCEPT VALUATION OF CLOSING STOCK OF FINISHED GOODS

$$\text{closing stock (Units)} = \text{Units Produced} - \text{Units sold}$$

$$\text{closing stock (£)} = \text{closing stock (Units)} \times \text{Cost of Production / Unit}$$

Cost of Production / Unit

In absence of
opening stock

In Presence of
opening stock

FIFO

Weighted Average

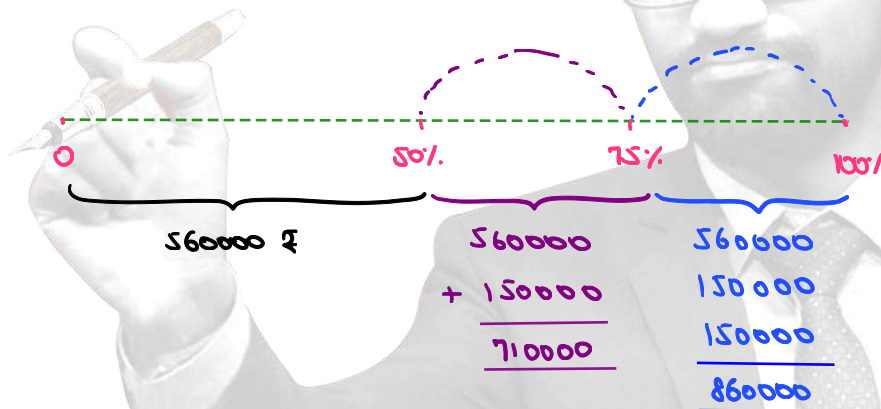
$$\frac{\text{Cost of Production}}{\text{Units Produced}}$$



$$\frac{\text{Cost of Production} + \text{Cost of opening stock}}{\text{Units Produced} + \text{opening stock Units}}$$

CONCEPT SPECIAL TREATMENT OF SEMI-VARIABLE OVERHEADS WHEN THE PRODUCTION CAPACITY VARIES DURING THE YEAR

- ✓ Maximum production capacity of JK Ltd. is 5,20,000 units per annum.
- ✓ Semi variable Overheads are ₹ 5,60,000 per annum up to 50% capacity and additional ₹ 1,50,000 per annum for every 25% increase in capacity or a part of it.
- ✓ JK Ltd. worked at 60 per cent capacity for the first three months during the year 2008, but it is expected to work at 90 per cent capacity for the remaining nine months.



Semi-Variable Overheads

: for First 3 Months =

: for Next 9 Months =

CONCEPT PREPARATION OF PRODUCT WISE COST SHEET IN CASE OF MULTI PRODUCT ORGANISATION

Multi Product means > 1 Product.

Production Ratio

Material Ratio

MATERIAL COSTING

CONCEPT

ECONOMIC ORDER QUANTITY

$$EOQ = \sqrt{\frac{2 \times A \times O}{C}}$$

(Units)

$$EOQ (\text{₹}) = EOQ (\text{Units}) \times \text{Cost/Unit of M}$$

A = Annual Demand of raw Material (Units)

O = Ordering cost/order (₹)

C = carrying cost/unit pa (₹)

CONCEPT**NUMBER OF ORDERS****CONCEPT****ORDER FREQUENCY/ ORDER SCHEDULE/ TIME B/W 2 ORDERS****CONCEPT****COMPONENTS OF COST**

Particulars	Relevant Cost/ Related Cost/ System Cost/ Variable Cost	Total Cost
<i>Purchase Cost</i>		
<i>Ordering Cost</i>		
<i>Carrying Cost</i>		

CONCEPT**COMPUTATION OF COST**

Particulars	Formula
<i>Purchase Cost</i>	
<i>Ordering Cost</i>	
<i>Carrying Cost</i>	

CONCEPT**EOQ VS. NON EOQ (WITHOUT DISCOUNT)**

Find EOQ first of all.

Particulars	EOQ	NON EOQ
Purchase Cost		
Ordering Cost		
Carrying Cost		

Extra Cost incurred by ordering Non EOQ/ Savings done by ordering EOQ =

CONCEPT

EOQ VS. NON EOQ (WITH DISCOUNT)

Find EOQ first of all.

Particulars	EOQ	NON EOQ
Purchase Cost		
Ordering Cost		
Carrying Cost		

CONCEPT

APPLICATION OF FORMULA OF "OC + CC"

CONCEPT**PRICE BREAK**

Particulars	1	2	3	4
Order Quantity				
Purchase Cost				
Ordering Cost				
Carrying Cost				

CONCEPT**STOCK LEVELS**

Re-Order Level	✓ Maximum Consumption × Maximum Reorder Period or ✓ Safety Stock Level + (Normal Consumption × Normal Re-order Period)
Minimum Level	✓ Re-order level - (Normal Consumption × Normal Re-order Period)
Maximum Level	✓ Re-order Level + Reorder quantity - (Minimum Consumption × Minimum Re-order Period) OR ✓ EOQ + Safety Stock Level
Average Inventory Level	✓ $\text{Minimum level} + \frac{1}{2} \text{Re-order quantity}$ OR ✓ $\frac{\text{Maximum level} + \text{Minimum level}}{2}$
Danger Level	✓ Minimum/ Normal consumption × Maximum Re-order period for emergency purchases

- ✓ Consumption & Lead Time always go hand in hand.
- ✓ For danger level, if Maximum Re-order period for emergency purchases is not given, assume it to be less than minimum lead time.
- ✓ Normal/ average consumption = $\frac{\text{Minimum Consumption} + \text{Maximum Consumption}}{2}$
- ✓ Normal/ average Reorder Period = $\frac{\text{Minimum Reorder Period} + \text{Maximum Reorder Period}}{2}$

CONCEPT**MATERIAL TURNOVER RATIO & MATERIAL HOLDING PERIOD**

It indicates the speed with which the material is consumed.

Material Turnover Ratio	<i>Formula</i>	$\frac{\text{Cost of Raw Material Consumed}}{\text{Average Stock of Raw Material}}$
	<i>Cost of Raw Material Consumed</i>	$\begin{aligned} &\text{opening stock of Raw Material} \\ &+ \text{purchases of Raw Material} \\ &- \text{closing stock of Raw Material} \end{aligned}$
	<i>Average Stock of Raw Material</i>	$\frac{\text{opening stock of RM} + \text{closing stock of RM}}{2}$
	<i>Interpretation</i>	
Material Holding Period	<i>Formula</i>	$\frac{360 \text{ Days} / 52 \text{ weeks} / 12 \text{ Months}}{\text{Material Tlo Ratio}}$
	<i>Interpretation</i>	

CONCEPT**COMPUTATION OF MATERIAL COST**

Inclusions	Purchase Price
	Custom Duty
	Freight
Exclusions	Trade Discount
	Quantity Discount
	Subsidy/ Grant
Special Points	Don't deduct cash discount
	Add Road Tax/ Toll Tax/ Entry Tax/ Octroi, if paid by buyer
	Don't add GST if credit is available
	Don't add Demurrage or Detention Charges

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	In case of non-returnable containers, add the total cost
	In case of returnable containers, add the total cost of containers and then deduct the amount refunded by supplier at the time of return

CONCEPT	PURCHASE OF MORE THAN 1 MATERIAL IN SINGLE ORDER
----------------	---

Expense	Apportionment
Sales Tax	Apportion in the ratio of Invoice Price.
Freight	Apportion in the ratio of Purchase Quantity.
Octroi	Apportion in the ratio of Net Quantity Received.

CONCEPT	COMPUTATION OF STOCK RATE
----------------	----------------------------------

Particulars	A	B	C
Quantity Purchased			
Less : Shortage etc.			
= Net Quantity Received			
Less : Provision for further deterioration			
= Effective Quantity			

$$\text{Stock Rate} = \frac{\text{Total Cost of Purchase}}{\text{Effective Quantity}}$$

CONCEPT	ABC (ALWAYS BETTER CONTROL)
----------------	------------------------------------

Meaning	This system divides whole category of items in 3 parts - A, B & C, to exercise discriminating control over these categories of items based on their importance.			
Categorisation	Category	% of Total Value	% of Total Items	Control
	A	Huge investment Around 70%	Small Percentage Around 10%	Highest Degree of Control
	B	Moderate investment Around 20%	Moderate Percentage Around 20%	Moderate Degree of Control
	C	Least investment Around 10%	Least Percentage Around 70%	Least Degree of Control

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Congratulates!

It's All India Rank Holders

THEY BELIEVED, THEY DID, SO CAN YOU



#Kunal



#Arpita



#Utkarsh



#Mauj Arif



#Abhinav



#Jatin



#Zainul



#Kali



#Shubham



#Pari



#Mohnish



#Rhythm



#Naman



#Satakshi



#Sohan



#Aryan



#Mayank



#Rohini



#Daksh



#Neerav

CONCEPT**STORES LEDGER**

It is maintained to keep a check on movement of materials.

Date	Receipts			Issues			Balances		
	Qty	Rate	Amt	Qty	Rate	Amt	Qty	Rate	Amt

Special Points

<i>Purchase of material at the rate, when such rate is already appearing in Balance Column</i>	If such rate is appearing at the bottom in balance column, only then club the quantities.	
<i>Freight amount given along with Purchase Price</i>	Add amount of freight in purchase price.	
<i>Transfer from 1 Job to Other Job</i>	No effect.	
<i>Transfer from 1 Department to Other Department</i>	No effect.	
<i>Return to Supplier</i>	It will come in ISSUE Column. It will be entered at Same Rate, at which it was purchased	
<i>Return from Production to Stores</i>	It will come in RECEIPTS Column.	
	<i>Qs Specifies Date of Issue</i>	Value at the rate of issue of such date
	<i>Qs Doesn't Specify Date of Issue</i>	Value at the rate of latest issue
	If FIFO , write at the top in balance column. If LIFO , write at the bottom in balance column.	

CONCEPT

DIFFERENCE B/W BOOK & PHYSICAL QUANTITY

Book Qty > Physical Qty

Shortage

Treat as Issue

Abnormal loss

- loss is to be taken to Costing P/L A/c

Book Qty < Physical Qty

Surplus

Treat as Receipt

Normal loss

- loss is to be absorbed by good units
- + It inflates the price of balance goods

LABOUR COSTING

CONCEPT

LABOUR TURNOVER RATIO

It is the rate of change in the composition of labour force of an organization.

Separation Method	$\frac{\text{Number of employees separated during the year}}{\text{Average number of employees on roll during the year}} \times 100$
Replacement method	$\frac{\text{Number of employees replaced during the year}}{\text{Average number of employees on roll during the year}} \times 100$
Flux method (Variant 1)	$\frac{\text{No. of emp. separated} + \text{No. of emp. replaced during the year}}{\text{Average number of employees on roll during the year}} \times 100$
Flux method (Variant 2)	$\frac{\text{No. of emp. separated} + \text{No. of accessions during the year}}{\text{Average number of employees on roll during the year}} \times 100$
Labour turnover due to new recruitment	$\frac{\text{Number of new employees joining during the year}}{\text{Average number of employees on roll during the year}} \times 100$
Labour turnover due to accessions	$\frac{\text{Number of accessions during the year}}{\text{Average number of employees on roll during the year}} \times 100$

Average no. of workers on roll = $\frac{\text{Workers in the beginning} + \text{Workers at the end}}{2}$

Computation of Workers at the End		
	Particulars	Workers
	Workers in the Beginning	
+	Workers Replaced	
+	Workers Recruited under Expansion	
-	Workers Separated	
	Workers at the end	

Equivalent Annual Labour Turnover Rate

$$\frac{\text{Labour Turnover Rate Computed for the given period}}{\text{Days or Months in the given period}} \times 365/12$$

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If Question provides LTR itself

First of all, find average no. of workers

- If workers separated are given, **apply separation method** to find average no. of workers
- If workers replaced are given, **apply replacement method** to find average no. of workers

Impact of Labour Turnover

Given Cost	Computed Cost
Settlement Cost	Cost of Rectification
Recruitment Cost	Contribution Lost due to Unproductive Hours
Selection Cost	
Training Cost	

CONCEPT**COMPUTATION OF LABOUR HOUR RATE****Computation of Gross Wages, Labour Cost, Net Wages**

Particulars	Amount
Basic Pay	
+ D.A.	
+ Leave Salary	
+ Bonus	
+ Canteen Subsidy	
GROSS WAGES	
+ E's Contribution to PF	
+ E's Contribution to ESI	
LABOUR COST	
- e's Contribution to PF	
- e's Contribution to ESI	
NET WAGES	

Computation of Effective Hours

Particulars	
Total Days Available	
- Leave Days	
- Holidays	
x Actual Days Worked	
Hours/ Day	

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= Actual Hours Available	
- Normal Idle Time	

Computation Of Labour Hour Rate

CONCEPT

TWO BROAD METHODS OF PAYMENT

Time Rate
 No. of Hours $\times$ Rate/ Hour

Piece Rate
 No. of Pieces $\times$ Rate/ Piece

Straight Piece Rate

Differential Piece Rate

CONCEPT

COMPUTATION OF EFFICIENCY

Output Basis

$$\frac{\text{Actual OP}}{\text{Standard OP}} \times 100$$

Time Basis

$$\frac{\text{Standard Time}}{\text{Actual Time}} \times 100$$

CONCEPT**PREMIUM BONUS PLANS****Halsey Plan**

$$(\text{Actual Time Taken} \times \text{Time Rate}) + 50\% [\text{Time saved} \times \text{Time Rate}]$$

Rowan Plan

$$(\text{Actual Time Taken} \times \text{Time Rate}) + \text{Time saved} / \text{Time Allowed} \times [\text{Actual Time} \times \text{Time Rate}]$$

Actual Time Taken = Actual Time for Actual Production

Standard Time/Time Allowed = Standard Time for Actual Production

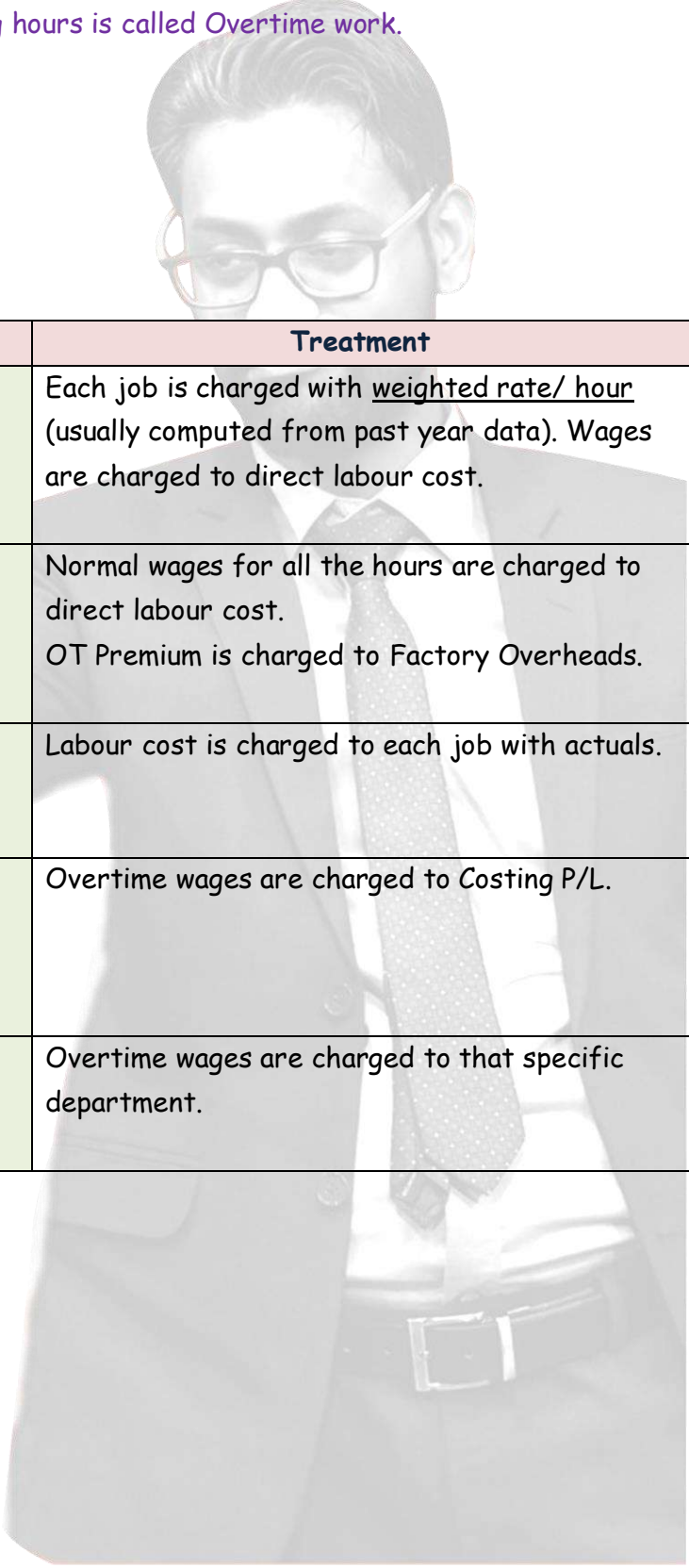
CONCEPT**TREATMENT OF IDLE TIME**

It is the time during which worker is not working.

Normal Idle Time	Abnormal Idle Time
Unavoidable	Avoidable
Ex : Meals Break	Ex : Strike
Treated as cost of production	Transferred to Costing P/L
Wage rate is inflated.	

CONCEPT**TREATMENT OF OVERTIME**

Work done by the worker beyond normal working hours is called Overtime work.



Circumstances	Treatment
When it is required regularly as a policy due to labour shortage	Each job is charged with <u>weighted rate/ hour</u> (usually computed from past year data). Wages are charged to direct labour cost.
When it is done to meet irregular production requirements	Normal wages for all the hours are charged to direct labour cost. OT Premium is charged to Factory Overheads.
When it is desired at customer's request to complete the work within specified time	Labour cost is charged to each job with actuals.
When it is required to make up any short fall in production due to abnormal conditions such as flood, earthquake etc.	Overtime wages are charged to Costing P/L.
When it can be attributed to the fault of any particular department	Overtime wages are charged to that specific department.

OVERHEADS

CONCEPT

UNDER OR OVER ABSORPTION OF OVERHEADS

Absorbed Overheads	Actual Base x Predetermined Overhead Recovery Rate
Actual Overheads	Given Amount - Adjustments (if any)

Actual O/Hs Vs. Absorbed O/Hs		
Under-Absorption	Full-Absorption	Over-Absorption
Actual Overheads > Absorbed Overheads	Actual Overheads = Absorbed Overheads	Actual Overheads < Absorbed Overheads

Treatment of Under/ Over Absorbed O/Hs	
Abnormal Reason	Normal Reason
Ex : Defective Planning	Ex : Increase in overhead costs
Transferred to Costing P/L	Find out supplementary rate and adjust Cost of Sales, Cost of Closing Stock of FG & WIP.

Costing P/L A/c

To Factory on Control A/c

Cost of sales A/c

FG Control A/c

WIP Control A/c

To Factory on Control A/c

Supplementary Rate =
$$\frac{\text{Under / over absorption due to normal reasons}}{\text{Equivalent Units Produced}}$$

CONCEPT**DISTRIBUTION OF OVERHEADS**

Primary Summary	Secondary Summary
Allocation and apportionment of expenses for the first time amongst the - Production Departments & - Service Departments	Redistribution of Overheads of Service Departments, back over the Production Departments.

Format of Primary Summary

Particulars	Basis	P1	P2	S1	S2
Direct Material	Given				
Direct Wages	Given				
Rent	Area				
Lighting	Light Points or Area				
Depreciation	Capital Value of Asset				
Insurance	Capital Value of Asset				
Maintenance	Machine Hours				
Power	HP of machines x Machine Hours				
Indirect Material	Direct Material				
Indirect Wages	Direct Wages				
Staff welfare	No. of employees				
Supervision	No. of employees				
Time keeping	No. of employees				
Sundries	Labour Hours or Machine Hours or Direct Wages				
Total					

Format of Secondary Summary

Particulars	Basis	P1	P2	S1	S2
Total of primary Summary					
Distribution of S1 Overheads					

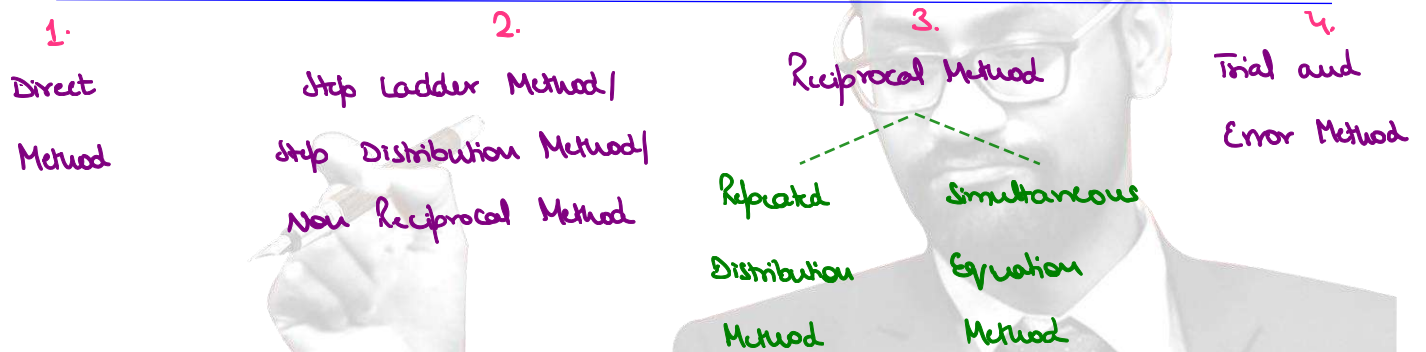
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Distribution of S2 Overheads					
Total					

Methods of Secondary Summary



In silent cases, apply Reciprocal Method. However, if service departments are > 2, then apply Step Ladder Method.

Direct Method

Particulars	Basis	P1	P2	S1	S2
Total of primary Summary					
Distribution of S1 Overheads					
Distribution of S2 Overheads					
Total					

Step Ladder Method

Particulars	Basis	P1	P2	S1	S2	S3
Total of primary Summary						
Distribution of S1 Overheads						
Distribution of S2 Overheads						
Distribution of S3 Overheads						
Total						

Purpose is to get maximum distributions amongst the departments so we shall rank the Service Departments on the basis of "Extent of service provided to other departments". The service department providing the maximum service shall be given priority for distribution.

Example						
<i>Particulars</i>	<i>Basis</i>	<i>P1</i>	<i>P2</i>	<i>S1</i>	<i>S2</i>	<i>S3</i>
Distribution of S1 Overheads						
Distribution of S2 Overheads						
Distribution of S3 Overheads						

If we follow the same serial order						
<i>Particulars</i>	<i>Basis</i>	<i>P1</i>	<i>P2</i>	<i>S1</i>	<i>S2</i>	<i>S3</i>
Distribution of S1 Overheads						
Distribution of S2 Overheads						
Distribution of S3 Overheads						

If we rank SDs on the basis of "Extent of service provided to other departments"

<i>Particulars</i>	<i>Basis</i>	<i>P1</i>	<i>P2</i>	<i>S1</i>	<i>S2</i>	<i>S3</i>
Distribution of S3 Overheads						
Distribution of S1 Overheads						
Distribution of S2 Overheads						

Repeated Distribution Method

Particulars	Basis	P1	P2	S1	S2
Total of primary Summary					
Distribution of S1 Overheads					
Distribution of S2 Overheads					
Distribution of S1 Overheads					
Distribution of S2 Overheads					
Distribution of S1 Overheads					
Distribution of S2 Overheads					
Total					

Simultaneous Equation Method

Let total overheads of S1 = x ₹

Let total overheads of S2 = y ₹

$x = \text{S1 own overheads} + \text{Share of S2 overheads}$

$y = \text{S2 own overheads} + \text{Share of S1 overheads}$

Example

Total of primary summary is as follows :

P_1	P_2	S_1	S_2
51,837	12,163	40,000	16,000

Basis of distribution is as follows :

	P_1	P_2	S_1	S_2
S_1	50%	40%	-	10%
S_2	30%	50%	20%	-

Prepare secondary summary as per Simultaneous Equation Method.

Solution

$$x = 40000 + .20y \dots\dots (1)$$

$$y = 16000 + .10x \dots\dots (2)$$

Solving equations (1) and (2)

$$x = 44,082$$

$$y = 20,408$$

Particulars	Basis	P1	P2	S1	S2
Total of Primary Summary		51,837	12,163	40,000	16,000
Distribution of S1 Overheads	50:40:-:10	22,041	17,633	(44,082)	4,408
Distribution of S2 Overheads	30:50:20:-	6,122	10,204	4,082	(20,408)
Total		80,000	40,000	Nil	Nil

Computation of Absorption Rate

Particulars	P1	P2
Total of Secondary Summary (a)		
Direct Labour Hours (b)		
Overhead Rate/ Direct Labour Hour $\{(a) \div (b)\}$		

CONCEPT

MACHINE HOUR RATE

Machine hour rate denotes the cost of machine per hour.

Expenses related to Machine

Standing Expenses	Machine Expenses
Depreciation (if based on time)	Depreciation (if based on activity)
Rent	Repairs
Lighting	Maintenance
Foreman Salary	Power
Indirect Wages	Fuel
Manager Salary	Electricity
Departmental Overhead	Consumable Stores

Statement Showing Machine Hour Rate

S.No.	Particulars	Computation	Amount (₹)
A.	Standing Expenses		
1			
2			
3			
4			
	Total Standing Expenses (x)		
	Total Machine Hours (y)		
	Standing Expense/ Machine Hour	x / y	

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B.	Machine Expenses		
1			
2			
3			
	Machine Expense/ Hour		
C.	Machine Hour Rate	A. + B.	

Effective Machine Hours	
Total Machine Hours available	
- Maintenance Hours	
- Set Up Hours (if unproductive)	

CONCEPT	COMPUTATION OF RECOVERY RATE
---------	------------------------------

$$\frac{\text{Recovery Rate}}{\text{Absorption Rate}} = \frac{\text{Overheads}}{\text{Base}} \times 100$$

CONCEPT	DEPARTMENTAL RATE VS. BLANKET RATE
---------	------------------------------------

Blanket Rate	Departmental Rate
Single recovery rate for entire organization	Separate recovery rate for each department

BUDGETARY CONTROL

CONCEPT

CONTROL RATIOS or BUDGET RATIOS

These ratios provide information about the performance level i.e. whether the actual performance is favourable or unfavourable.

Efficiency Ratio	$\frac{\text{Standard Hours}}{\text{Actual Hours}} \times 100$
Activity Ratio	$\frac{\text{Standard Hours}}{\text{Budgeted Hours}} \times 100$
Capacity Ratio/ Actual usage of Budgeted Capacity Ratio	$\frac{\text{Actual Hours}}{\text{Budgeted Hours}} \times 100$

Important

$$\text{Efficiency Ratio} \times \text{Capacity Ratio} = \text{Activity Ratio}$$

Relationship

Meaning of Various Terms	
Budgeted Hours	Budgeted Hours for Budgeted Production
Actual Hours	Actual Hours for Actual Production
Standard Hours	Budgeted Hours for Actual Production

Example

	Units	Hours/ Unit
Actual	100	5
Budgeted	120	6

Solution

Budgeted Hours	
Actual Hours	
Standard Hours	

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Some other formulas :

Calendar Ratio	$\frac{\text{Actual Working Days}}{\text{Budgeted Working Days}} \times 100$
Standard Capacity Usage Ratio	$\frac{\text{Budgeted Hours}}{\text{Max. Possible hours in Budgeted Period}} \times 100$
Actual Capacity Usage Ratio	$\frac{\text{Actual Hours}}{\text{Max. Possible hours in Budgeted Period}} \times 100$

CONCEPT

FLEXIBLE BUDGET

Under this, a series of budget are prepared, one for each alternate production level.

Format of Flexible Budget

S.No	Particulars	1	2	3	4	5
	Units					
A.	Sales					
B.	Cost					
1.	Fixed					
2.	Variable					
3.	Semi-Variable					
	Total (B)					
C.	Profit/ Loss (A - B)					

Categorization of Cost

Fixed Cost	Variable Cost	Semi Variable Cost
It remains same at all the levels of output.	It varies with the output proportionately.	It varies with the output but not proportionately.

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Principle of Change

Fixed Cost	Variable Cost	Semi Variable Cost
Always changes in totality.	Always changes on per unit basis.	Change the fixed and variable proportions separately.

Segregation of Semi-Variable Cost

CONCEPT

FUNCTIONAL BUDGET

When Question doesn't provide its pattern

Production Budget

Particulars	FP ₁	FP ₂
Target Sales		
+ Desired Closing Stock		
- Available Opening Stock		
= Production (Units)		

Raw Material Consumption (Usage) Budget

Particulars	RM ₁	RM ₂
Finished Goods Production x Raw material Consumption per unit of FP		
= Consumption (Units)		

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Raw Material Purchase Budget		
Particulars	RM ₁	RM ₂
Raw Material Consumption		
+ Desired Closing Stock		
- Available Opening Stock		
= Raw Material Purchase (Units)		
× Raw material Cost per unit		
= Raw Material Purchase (₹)		

When Question provides its own pattern

Production Budget				
Particulars	Q ₁	Q ₂	Q ₃	Q ₄
Sales				
80% of Sales of Current Quarter				
20% of Sales of Next Quarter				?
= Total Production (Units)				

As Question provides the opening stock at beginning of year and closing stock at the end of year, we can find the Total Production for the year as **Sales + Closing Stock - Opening Stock**

Production for Q₄ = Total Production for full year - Production of Q₁, Q₂, Q₃

Sometimes, the question may ask to purchase the Raw Material requirement in a particular proportion quarter wise. In such case, we shall find the annual requirement through the conventional formula

Consumption of RM + Closing Stock of RM - Opening Stock of RM

Raw Material Purchase Budget				
Particulars	Q ₁	Q ₂	Q ₃	Q ₄
Purchase Quantity (Total Annual Requirement × Purchase %)				

The image features a man in a dark jacket and glasses, seen from the back, speaking into a microphone. He is addressing a large, diverse crowd of people. In the background, a large, semi-transparent image of the same man wearing sunglasses and a dark jacket is overlaid. The text 'CA RAHUL GARG' is written in large, bold, white letters across the top of this background image.

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JOB & BATCH COSTING

CONCEPT	JOB COSTING
Meaning	Job Costing is that form of specific order costing under which each job is treated as a cost unit and costs are accumulated and ascertained separately for each job.
Applicability	When jobs are executed for different customers according to their specifications.
Using Recovery Rates	To charge the share of overheads on a job, recovery rates are used. In the absence of any specific information, following are assumed a. <u>Factory overheads are recovered as a % of direct wages</u> $\frac{\text{Factory Ohs}}{\text{Direct wages}} \times 100$ b. <u>Administration & Selling overheads are recovered as a % of works cost</u> $\frac{\text{Administration \& Selling Ohs}}{\text{Works Cost}} \times 100$
Using Supplementary Rate	It is used when there is difference in Estimated and Actual figure i.e the amount of overhead charged earlier is less. Cost of job is increased by the use of supplementary rate.

CONCEPT**BATCH COSTING**

Meaning	The technique or method of estimation of batch cost is known as batch costing.
Applicability	The method of batch costing is applicable to those industries where production is done in bulk quantity at a time.
Example	Pharmaceutical or drug industries, ready-made garments, industries manufacturing electronic parts of T.V., radio sets etc.
Cost / Unit	$\frac{\text{Total Cost of Batch}}{\text{No of Units in Batch}}$

CONCEPT**ECONOMIC BATCH QUANTITY**

Economic Batch Quantity refers to the optimum quantity which should be produced through one batch so that the Set up Costs & Carrying Costs are together optimized.

$$EBQ = \sqrt{\frac{2 \times A \times S}{C}}$$

A: Annual Production
 S: Set up cost / batch
 C: carrying cost p.a.

$$\text{No. of Batches/ Runs} = \frac{\text{Annual Production}}{EBQ}$$

$$\text{Time interval b/w 2 batches} = \frac{360 \text{ Days} / 52 \text{ Weeks} / 12 \text{ Months}}{\text{No. of Batches}}$$

CONCEPT**COMPUTATION OF COST**

Particulars	Formula
Set Up Cost	No. of batches/ runs x Set up cost/ batch
Carrying Cost	Average Inventory x Carrying Cost per unit p.a.

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CONCEPT**EBQ VS. NON EBQ**

Find EBQ.

Particulars	EBQ	NON EBQ
Set Up Cost		
Carrying Cost		

Extra Cost incurred by Non EBQ/ Savings possible by EBQ =

PROCESS COSTING

It's a method of costing used in the industries where the material has to pass through 2 or more processes for being converted into the final product.

A separate Process A/c is opened for each process.

CONCEPT

SIMPLE PROCESS ACCOUNT

Process I A/c					
Particulars	Units	Amount	Particulars	Units	Amount
To Material			By Process II A/c		
To Labour					
To Overheads					

Process II A/c					
Particulars	Units	Amount	Particulars	Units	Amount
To Process I			By Finished Stock A/c		
To Material					
To Labour					
To Overheads					

CONCEPT

PROCESS ACCOUNT WITH GAINS & LOSSES

Process I A/c					
Particulars	Units	Amount	Particulars	Units	Amount
To Material			Bu Normal Loss		
To Labour			By Abnormal Loss		
To Overheads			By Process II A/c or Finished Stock A/c		
To Other Expense					
To Abnormal Gain					

$$\text{Cost per unit of Output / ABL / ABG} = \frac{\text{Total Cost of Process} - \text{Normal Loss Scrap}}{\text{Total Units Input in Process} - \text{Normal Loss Units}}$$

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CONCEPT**VALUATION OF PROCESS LOSSES & GAINS**

Normal Loss	Abnormal Loss	Abnormal Gain
It is unavoidable loss.	It is avoidable loss.	It is unanticipated gain.
It is valued at scrap.	It is charged to Costing P/L.	It is credited to Costing P/L.

Example

Input = 100 units, normal loss = 5%

Actual output = 92 units	Actual output = 97 units

Normal Loss A/c					
Particulars	Units	Amount	Particulars	Units	Amount
To Process A/c			By Bank A/c		
			By Abnormal Gain A/c		

Abnormal Loss A/c					
Particulars	Units	Amount	Particulars	Units	Amount
To Process A/c			By Bank A/c		
			By Costing P/L A/c		

Abnormal Gain A/c					
Particulars	Units	Amount	Particulars	Units	Amount
To Normal Loss A/c			By Process A/c		
To Costing P/L A/c					

CONCEPT**SALE OF OUTPUT OF PROCESS**

Process is not treated as Responsibility Centre	Process is treated as Responsibility Centre
Sale & Profit not to be shown in Process A/c but in Costing P/L A/c.	Sale & Profit is to be shown in Process A/c itself.

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CONCEPT**INTER PROCESS PROFIT**

Process I A/c							
Particulars	Cost	Profit	Total	Particulars	Cost	Profit	Total
To Opening Stock				By Process II A/c			
To Direct Material							
To Direct Labour							
To Prime Cost of Goods Produced							
(-) Closing Stock							
To Prime Cost of Goods Transferred							
To Factory O/Hs							
To Factory Cost of Goods Transferred							
To Profit							

Stock in process is valued at prime cost.

Finished stock is valued at the price at which it is received from process II.

Actual Realised Profits				
Particulars	Process Profits (a)	Unrealised Profit in Opening Stock (b)	Unrealised Profit in Closing Stock (c)	Actual Realised Profits (a) + (b) - (c)
Process A				
Process B				
Process C				
Finished Stock				

Value of Closing Stock			
Particulars	Closing Stock as Given in Question (a)	Unrealised Profit in Closing Stock (b)	Value of Closing Stock (a) - (b)
Process A			
Process B			
Process C			
Finished Stock			

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CONCEPT**TREATMENT OF CLOSING WIP**

Process I A/c					
Particulars	Units	Amount	Particulars	Units	Amount
To Material			By Normal Loss		
To Labour			By Abnormal Loss		
To Overheads			By Process II A/c or Finished Stock A/c		
To Abnormal Gain			By Closing WIP		

Statement of Equivalent Production									
Input	Units	Output	Units	Material		Labour		Overheads	
				DOC	ECU	DOC	ECU	DOC	ECU
Material		Normal Loss							
		Abnormal Loss							
		Units Completed							
		Closing WIP							
		Abnormal Gain							

Statement of Cost				
S. No.	Particulars	Cost	ECU	Cost/ ECU
1	Material			
2	Labour			
3	Overheads			

Statement of Valuation				
1	Closing WIP		ECU x Cost / ECU	
		Material		
		Labour		
		Overhead		
2	ABL / Units completed		ECU x Cost / ECU	
		Material		
		Labour		
		Overhead		
		OR Units x Total Cost / ECU		

CONCEPT**TREATMENT OF OPENING WIP (FIFO METHOD)**

FIFO Method can be applied only if DOC of opening WIP is available.

Process I A/c					
Particulars	Units	Amount	Particulars	Units	Amount
To Opening WIP					

Statement of Equivalent Production									
Input	Units	Output	Units	Material		Labour		Overheads	
				DOC	ECU	DOC	ECU	DOC	ECU
Op. WIP		Units Completed							
		: Opening WIP							
		: Current I/P							

Statement of Cost				
S. No.	Particulars	Cost	ECU	Cost/ ECU
1	Material			
2	Labour			
3	Overheads			

Statement of Valuation			
1	Units completed		
a.	Opening WIP Units		
i	Cost incurred in Previous Period	Given in Question	
ii	Cost incurred in Current Period	ECU x Cost / ECU	
		Material	
		Labour	
		Overhead	
b.	Current I/P Units	Units x Total Cost / ECU	

CONCEPT TREATMENT OF OPENING WIP (WEIGHTED AVERAGE METHOD)

Weighted Average Method can be applied only if bifurcation of cost of opening WIP is available.

Process I A/c					
Particulars	Units	Amount	Particulars	Units	Amount
To Opening WIP					

Statement of Equivalent Production									
Input	Units	Output	Units	Material		Labour		Overheads	
				DOC	ECU	DOC	ECU	DOC	ECU
Op. WIP									

Statement of Cost						
S. No.	Particulars	Cost of Previous Period (a)	Cost of Current Period (b)	Total Cost (a) + (b)	ECU	Cost/ ECU
1	Material					
2	Labour					
3	Overheads					

Statement of Valuation

JOINT & BY PRODUCT

CONCEPT

BY PRODUCT

Meaning	By-products are products of relatively small value which emerges incidentally in the course of manufacturing the main product. These are secondary or subsidiary products.	
Accounting	<i>If sales value is small</i>	Sales value may be credited to P/L A/c, or Sales value may be deducted from total cost.
	<i>If sales value is considerable</i>	By-product may be treated as Joint Product.

CONCEPT

JOINT PRODUCT

Meaning	Joint products represent two or more products of almost equal importance which are produced in natural proportions simultaneously from the same material in the same process.
Options of sale	These products may be saleable without further processing or after further processing.
Examples	In Oil-refining industry, Gasoline, petrol, diesel, coal tar, kerosene etc. are joint products.
Meaning of Split off Point	Split off point or Separation point refers to that stage in the manufacturing process at which the products get separated and become separately identifiable.
Primary Issue	Since Joint costs cannot directly be allocated to individual products produced, there arises a problem of apportionment of joint costs amongst various products produced.

CONCEPT**PHYSICAL UNIT METHOD**

Joint cost is apportioned amongst joint products in the ratio of physical units.

CONCEPT**SURVEY/ POINT VALUE METHOD**

Joint cost is apportioned amongst joint products in the ratio of weight.

Weight = Units Produced x Points Allocated

CONCEPT**CONTRIBUTION MARGIN METHOD**

Joint cost is apportioned amongst joint products as follows :

Variable Portion - in the ratio of units

Fixed Portion - in the ratio of contribution (Sales - Variable Cost)

CONCEPT**MARKET VALUE AT SEPARATION POINT METHOD**

Joint cost is apportioned amongst joint products in the ratio of "Sales Value at Separation Point".

Sales Value at Separation Point = Units of JP at Separation Point x Selling Price at Separation Point

ICAI uses this method generally in silent cases.

CONCEPT**MARKET VALUE AFTER SEPARATION POINT METHOD**

Joint cost is apportioned amongst joint products in the ratio of "Sales Value after Further Processing".

Sales Value after further processing = Units of JP after further processing x Selling Price after further processing

CONCEPT**NET REALISABLE VALUE METHOD**

Joint cost is apportioned amongst joint products in the ratio of "Net Realisable Value".

Computation of NRV

Particulars

JP₁

JP₂

JP₃

Sales Value after further processing

- Further Processing Cost

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CONCEPT**REVERSE COST METHOD**

Reverse Cost Sheet is to be prepared for all such products of which the profit percentage is given.

Particulars	JP ₁	JP ₂	JP ₃
Sales Value after further processing			
- Estimated Profit			
= Cost of Sales			
- Selling & Distribution Expenses			
= Cost of Production			
- Administration Expenses			
= Factory Cost			
- Further Processing Cost			
= Balance/ Share in Joint Cost			

Share in Joint Cost (of the product of which profit % was not given)

- Total Joint Cost
- Share in Joint Cost of all the products for which cost sheet was prepared

CONCEPT**COMPUTATION OF PROFITS**

Computation of Profit (if sold at Split-off Point)

- Sales Value at Separation Point
- Share in Joint Cost

Computation of Profit (if sold after further processing)

- Sales Value after further processing
- Share in Joint Cost
- Further Processing Cost

CONCEPT**DECISION MAKING**

Decision about further processing of JPs

- Incremental Sales Value (Sales Value after further processing - Sales Value at Split Off Point)
- Incremental Cost (Further Processing Cost)
- = Incremental Profit (if positive, process further)

STANDARD COSTING

CONCEPT

BASICS

Meaning of Standard	Standard means a criteria or yardstick, against which actual activity can be compared to determine the difference between the two.
Meaning of Standard Cost	Standard Cost is "what should have been" under the given set of operating conditions.
Variance	Variance represents the deviation of actual performance from the standard performance. It can be favourable or unfavourable.

CONCEPT

MATERIAL COST VARIANCES

STEPS	
M_1	Actual Cost of Materials Consumed
	Actual Qty of Input Consumed $\times$ Actual Material Cost/ Unit of Input
M_2	Standard Cost of Actual Material Quantity
	Actual Qty of Input Consumed $\times$ Standard Material Cost/ Unit of Input
M_3	Standard Cost if Actual Material Quantity is in Standard Ratio
	Actual Qty of Input Consumed (in Standard Ratio) $\times$ Standard Material Cost/ Unit of Input
M_4	Standard Material Cost of Actual Production
	Actual Production $\times$ Standard Material Cost/ Unit of Output
	Budgeted Cost of Material Consumed
	Budgeted Qty of Input Consumed $\times$ Standard Material Cost/ Unit of Input

VARIANCE CHART

Material Cost Variance

Material Price Variance

Material Usage Variance

Material Mix
Variance

Material Yield
Variance

CONCEPT

MATERIAL COST VARIANCES (PRESENCE OF STOCK)

We will compute 1 additional variance i.e. Material Price Variance (at the time of purchase),
 $M_2 \text{ (Purchase)} - M_1 \text{ (Purchase)}$

Where,

$M_1 \text{ (Purchase)} = \text{Actual Qty of Input Purchased} \times \text{Actual Material Cost/ Unit of Input}$

$M_2 \text{ (Purchase)} = \text{Actual Qty of Input Purchased} \times \text{Standard Material Cost/ Unit of Input}$

Rest, all the variances shall be computed as per consumption quantity.

$M_1 \text{ (Consumption)} = \text{Value of Opening Stock} + \text{Value of Purchases} - \text{Value of Closing Stock}$

$M_2 \text{ (Consumption)} = \text{Actual Qty of Input Consumed} \times \text{Standard Material Cost/ Unit of Input}$

CONCEPT**LABOUR COST VARIANCES****STEPS**

L_1	Actual Labour Cost incurred for Actual Time Paid for
	Actual time paid for $\times$ Actual Rate
L_2	Labour Cost incurred for Actual Time Paid for but at standard rate
	Actual time paid for $\times$ Standard Rate
L_3	Standard Labour Cost for Actual Time worked
	Actual time worked $\times$ Standard Rate
L_4	Standard Labour Cost if Actual Time worked is in Standard Ratio
	Actual time worked (in Standard Ratio) $\times$ Standard Rate
L_5	Standard Labour Cost of Actual Production
	Actual Production $\times$ Standard Labour Cost/ Unit of Output, or
	Standard Hours Produced $\times$ Standard Rate/ Hour
	Budgeted Cost of Labour
	Budgeted Hours $\times$ Standard Rate/ Hour

VARIANCE CHART

Labour Cost Variance

Labour Rate Variance

Labour Efficiency Variance

Labour Idle Time
VarianceLabour Mix
VarianceLabour Yield
Variance

CONCEPT**VARIABLE OVERHEAD VARIANCES****STEPS**

VO_1	Actual Variable Overheads Incurred
VO_2	Standard Variable Overheads for Actual Hours Worked Actual Hours Worked $\times$ Standard Variable Overhead Rate per Hour
VO_3	Standard Variable Overheads for Actual Output Actual Output $\times$ Standard Variable Overhead Rate per Unit of Output

VARIANCE CHART

Variable On Cost Variance

Variable On Expenditure Variance

Variable On Efficiency Variance

CONCEPT**FIXED OVERHEAD VARIANCES****STEPS**

FO_1	Actual Fixed Overheads Incurred
FO_2	Budgeted Fixed Overheads
FO_3	Standard Fixed Overheads for Actual Days Worked Actual Days Worked $\times$ Standard Fixed Overhead per Day
FO_4	Standard Fixed Overheads for Actual Hours Worked Actual Hours Worked $\times$ Standard Fixed Overhead per Hour
FO_5	Standard Fixed Overheads for Actual Output Actual Output $\times$ Standard Fixed Overhead per Unit of Output

VARIANCE CHART

Fixed on Cost Variance

Fixed on Expenditure Variance

Fixed on Volume Variance

Fixed on
Capacity
VarianceFixed on
Efficiency
VarianceFixed on
Cost
Variance

MARGINAL COSTING

CONCEPT

INCOME STATEMENT

Particulars	Amount
Sales	
- Variable Cost	
= Contribution	
- Fixed Cost	
= Profit	

CONCEPT

CONTRIBUTION

1. Sales - Variable Cost
2. Fixed Cost + Profit
3. Selling Price/ unit - Variable Cost/ unit = Contribution/ unit

CONCEPT

VARIABLE COST

1. Sales - Contribution
2. Selling Price/ unit - Contribution/ unit = Variable Cost/ unit

CONCEPT

CONTRIBUTION RATIO or P/V RATIO or VARIABLE PROFIT RATIO or CONTRIBUTION TO SALES RATIO

If one set of data is given

If two set of data is given

CONCEPT**BREAK EVEN POINT**

It is the point at which, there is no profit, no loss.

At this point, Total Revenue = Total Cost

i.e. Sales = Variable Cost + Fixed Cost

or, Sales - Variable Cost = Fixed Cost

i.e. Contribution = Fixed Cost

Units ₹ %

CONCEPT**CASH BREAK EVEN POINT**

It considers only the cash portion of total fixed cost.

CONCEPT**MARGIN OF SAFETY**

It is the level of sales beyond the Break-even point.

Units ₹ %

CONCEPT

SALES TO EARN DESIRED PROFIT

Units

P

CONCEPT

SHUT DOWN POINT

It indicates the minimum sales to be achieved to continue the business.

Shut Down Point =

$$\frac{\text{Avoidable Fixed Cost}}{\text{Contribution/Unit @ 100\% Ratio}}$$

CONCEPT

COMBINED BEP

It is used when organization is selling > 1 product.

$$\text{Combined BEP} = \frac{\text{Total Fixed Cost}}{\text{Weighted Contribution/Unit}}$$

Computation of Weighted Contribution/Unit

Product	Contribution/Unit	Weight	Product
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CONCEPT**KEY FACTOR**

Anything which is in short supply, becomes the key factor ie. Requirement > Availability
In such situation, decision is taken on the basis of 'contribution per unit of key factor'.

Example**Particulars**

Contribution/ unit

Labour Hours/ unit

Units

Labour hours are limited.

Solution**Particulars**

Contribution/ unit

Contribution/ Labour Hour

Rank

A	B
40	30
3	7
10,000	7,000

A	B
40	30
$40/3$	$30/7$
$= 13.33$	$= 4.29$
I	II

CONCEPT**DECISION AS TO PRODUCT MIX**

Allocate the resources (key factor) to that product first, which is having top rank and then in descending order.

Example

Total labour hours available 51,000.

Solution**Particulars**

Allocation of Labour Hours

Production

A	B
$10,000 \times 3$	$51,000 - 30,000$
$= 30,000$	$= 21,000$
$30,000/3$	$21,000/7$
$= 10,000$	$= 3,000$

RECONCILIATION OF COST & FINANCIAL A/C

CONCEPT	RECONCILIATION STATEMENT
Particulars	Amount (₹)
Profit (Loss) as per Cost Accounting	
+ Incomes as per Financial Accounting only	
+ Profits as per Financial Accounting only	
- Expenses as per Financial Accounting only	
- Losses as per Financial Accounting only	
- Appropriations as per Financial Accounting only	
+ Over Recovery of Expense in Cost Accounting	
- Under Recovery of Expense in Cost Accounting	
+ Excess Valuation of Opening Stock in Cost Accounting	
- Excess Valuation of Closing Stock in Cost Accounting	
- Under Valuation of Opening Stock in Cost Accounting	
+ Under Valuation of Closing Stock in Cost Accounting	
+ Notional Expenses taken in Cost Accounting only	
= Profit (Loss) as per Financial Accounting	

CONCEPT**MEMORANDUM RECONCILIATION ACCOUNT**

Particulars	Amount	Particulars	Amount
To Loss as per Cost A/c		By Profit as per Cost A/c	
To All the items of Reconciliation Statement having '-' sign		By All the items of Reconciliation Statement having '+' sign	
To Profit as per Financial A/c		By Loss as per Financial A/c	
	Total		Total

CONCEPT**TYPE OF SITUATIONS**

TYPE I	TYPE II	TYPE III
Question provides the Profits of Financial A/c and Cost A/c, and also the items creating difference between the two.	Question provides the Profits of Financial A/c only	Question doesn't provide any profits
Prepare 1. Reconciliation statement or Memorandum Reconciliation A/c	Prepare 1. Cost Sheet to find profits of Cost A/c 2. Reconciliation statement or Memorandum Reconciliation A/c	Prepare 1. Trading and Profit Loss A/c to find profits of Financial A/c 2. Cost Sheet to find profits of Cost 3. Reconciliation statement or Memorandum Reconciliation A/c

INTEGRAL & NON-INTEGRAL SYSTEM

CONCEPT

BASICS

Non-Integral System	Integral System
It's a system of accounting under which 2 separate set of account books are maintained, one for the cost transactions and other for the financial transactions.	It's a system of accounting where both costing and financial transactions are recorded in the same set of books.

CONCEPT

JOURNAL ENTRIES

S.No.	Particulars	Journal Entry
1	Material	
a	Purchase	Stores Ledger Control A/c To General Ledger Adjustment A/c
b	Purchase Return	GLA A/c To SLC A/c
c	Normal Loss	Production O/H Control A/c To SLC A/c
d	Abnormal Loss	Costing P/L A/c To SLC A/c
e	Absorption of Direct Material	WIP Control A/c To SLC A/c
f	Absorption of Indirect Material	Production O/H Control A/c Admin. O/H Control A/c Sell & Dist. O/H Control A/c To SLC A/c
g	Return from Job/ Production	SLC A/c To WIP Control A/c
h	Material transferred b/w jobs	No entry
2	Wages	
a	Expense	Wages Control A/c

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		To GLA A/c
b	Absorption of Direct Wages	WIP Control A/c To Wages Control A/c
c	Absorption of Indirect Wages	Production O/H Control A/c Admin. O/H Control A/c Sell & Dist. O/H Control A/c To Wages Control A/c
3	Direct Expenses	
a	Expense	Direct Expense Control A/c To GLA A/c
b	Absorption	WIP Control A/c To Direct Expense Control A/c
4	Production Overheads	
a	Expense	Production O/H Control A/c To GLA A/c
b	Absorption	WIP Control A/c To Production O/H Control A/c
5	Transfer of Cost of Finished Product	FG Control A/c To WIP Control A/c
6	Administration Overheads	
a	Expense	Admin. O/H Control A/c To GLA A/c
b	Absorption	FG Control A/c To Admin. O/H Control A/c
7	Transfer of COGS	Cost of Sales A/c To FG Control A/c
8	Selling & Distribution Overheads	
a	Expense	Sell & Dist. O/H Control A/c To GLA A/c
b	Absorption	Cost of Sales A/c To Sell & Dist. O/H Control A/c

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9	Transfer of Cost of Sales	Costing P/L A/c To Cost of Sales A/c
10	Sales	GLA A/c To Costing P/L A/c
11	Profit	Costing P/L A/c To GLA A/c
12	Loss	GLA A/c To Costing P/L A/c
13	Under/ Over Recovery	
a	Under Recovery	Costing P/L A/c To ____ O/H Control A/c
b	Over Recovery	____ O/H Control A/c To Costing P/L A/c

CONCEPT**LEDGER ACCOUNTS**

Accounts having c/d	Accounts not having c/d
Stores Ledger Control A/c	Wages Control A/c
WIP Control A/c	Direct Expense Control A/c
FG Control A/c	Production O/H Control A/c
GLA A/c	Administration O/H Control A/c
	Selling & Distribution O/H Control A/c

However, if trial balance provided by question has any balance of such accounts, then we can maintain the balance in closing.

SERVICE COSTING

Service or operating costing is a method of ascertaining the costs of providing or operating a service.
Example - Transport sector, hospital, hotel industry.

CONCEPT

PASSENGER KMS.

$\text{No. of Passengers} \times \text{No. of Kms}$
 $(\text{Seating Capacity} \times \text{Occupancy \%}) (\text{Kms/ trip} \times \text{No. of trips/ day}) \times \text{No. of days} \times \text{No. of buses}$

CONCEPT

TONNE KMs.

$\text{No. of Tonnes} \times \text{No. of Kms}$

Outward journey :

Inward journey :

Absolute Tonne Km	No. of tonnes carried x No. of Kms (Distance)
Commercial Tonne Km	Average tonnes carried x Total Kms (Distance)

CONCEPT

OTHER IMPORTANT COMPOSITE COST UNITS

Hotel Sector

$\text{No. of Room Days} = \text{No. of Rooms} \times \text{No. of Days}$

Hospital Sector

$\text{No. of Patient Days} = \text{No. of Patients} \times \text{No. of Days}$

CONCEPT**OPERATING COST SHEET – TRANSPORT SECTOR**

S.No.	Particulars	Computation	Amount (₹)
A.	Fixed Expenses		
1	Driver Salary		
2	Cleaner Salary		
3	Garage Rent		
4	Insurance		
5	Depreciation		
6	Road Tax		
	Total (A)		
B.	Variable Expenses		
1	Fuel		
2	Tyres/ Oil/ Filter		
	Total (B)		
C.	Semi Variable Expenses		
1	Repairs & Maintenance		
	Total (C)		
D.	Total Operating Cost	A + B + C	
E.	Profit		
F.	Total Collection	D + E	

ACTIVITY BASED COSTING

CONCEPT	TRADITIONAL METHOD		
Particulars	P1	P2	P3
Direct Material			
Direct Labour			
Overheads			
Total			

A single base is taken to distribute the amount of overheads over various products.

CONCEPT	ABC METHOD		
Particulars	P1	P2	P3
Direct Material			
Direct Labour			
Overheads : Activity 1			
: Activity 2			
: Activity 3			
Total			

It attempts to break the amount of overheads into various distinct activities, then to find cost driver rate for each such activity and accordingly distributing overheads over various products activity wise.

CONCEPT	COST DRIVER RATE			
Activity	Cost Pool	Cost Driver	Cost Driver Capacity	Cost Driver Rate
a	b	c	D	$e = b / d$



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