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COST & MANAGEMENT ACCOUNTING FOR CA INTERMEDIATE

(For SEPT 2026 & JAN / MAY 2027 Exam)

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Dedicated to

My Parents, Friends and Students

Your 'I CAN' is more important than your 'IQ'!!

'FORM' is Temporary, 'CLASS' is Permanent!!

PREFACE

Dear Students,

It gives us immense pleasure to present before you, the study material on Cost & Management Accounting. This book is for all the Intermediate students aspiring to achieve the highest rank in CA Intermediate examination. The subject of Cost & Management Accounting is both interesting and easy to understand. This book has been thoughtfully designed to incorporate contents that are as lucidly illustrative as possible.

Every care has been taken to make the presentation in this book free from blemish. Nevertheless, it is conceded that no one is infallible, unintended errors or omissions may have crept in. The users of this book are requested to bring these to the notice of the author and offer, without inhibition, their suggestions for further improvement.

Let us remind ourselves of two facts One: This book is not a substitute for the study material prescribed by ICAI, This is only an aid. Two: There is no short cut to success. It is resolute hard work that pays. Let us begin.

I am thankful to CA Ritu Dhanwani for help in notes designing.

"Everyman is free to rise as far as he is able or willing

But the degree to which he thinks determines

The degree to which he will rise"

Committed to your success,

CA Vinod G. Reddy
EXPERT,
Pune,
March 2026

CA Intermediate

COST &

MANAGEMENT ACCOUNTING

Volume 1

- CA Vinod Reddy -

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CA INTERMEDIATE - COST & MANAGEMENT ACCOUNTING

INTRODUCTION TO COST & MANAGEMENT ACCOUNTING

CA VINOD REDDY

#VR

I. MEANING OF COST

- ❑ The monetary value of all sacrifices made to achieve an objective. (I.e. to produce goods and services).
- ❑ Cost refers to the expenditure incurred in producing a product or in rendering a service.
- ❑ It is expressed from the producer or manufacture's viewpoint. (not from consumer's viewpoint).

II. DEFINITIONS

'Cost Accountancy' is defined as **"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 there for the purpose of managerial decision-making".**

'Costing' may be defined as. "The techniques and processes of ascertaining cost". It may further be said that **"Cost Accounting** is the classifying and appropriate allocation of expenditure for the determination of the cost of the product or services".

Inception - It started as Branch of Financial accounting but developed soon as a specialized field distinct from Financial accounting. The limitations of Financial Accounting gave birth to the Cost Accounting Methods and Techniques.
For example - Financial records revealed that the total profit made during the financial year is ₹50,000/- which is 20% of sales i.e. ₹2,50,000/-. It is a good performance. But the cost records revealed the following facts.

Products	A ₹	B ₹	C ₹	Total ₹
Sales	1,25,000	75,000	50,000	2,50,000
Costs	1,30,000	50,000	20,000	2,00,000
Profit / (Loss)	(5,000)	25,000	30,000	50,000
% of Profit / (Loss) to sales	(4%)	33.33%	60%	20%

The above example clearly explains the importance and need of cost accounting as a separate branch from Financial accounting.

Management Accounting - As per CIMA Official Terminology "Management accounting is the application of the Principles of Accounting and Financial Management to create, protect, preserve and increase value for the stakeholders of for-profit and not-for-profit enterprices in the public and private sectors."
Management accounting is an integral part of management. It assists management by provision of relevant information for planning, organising, controlling, decision making etc.

Cost Management - It is an application of management accounting concepts, methods of collections, analysis and presentation of data to provide the information needed to plan, monitor and control costs.

Difference between Cost Accounting and Management Accounting -

	Basis	Cost Accounting	Management Accounting
(i)	**Nature**	It records the quantitative aspect only	It records both quantitative and quantitative aspect
(ii)	**Objective**	It records the cost of producing a product and providing a service.	It provides information to management for planning and co-ordination.
(iii)	**Area**	It only deals with Ascertainment.	It is wider in scope as it includes financial accounting, budgeting, taxation, planning etc.
(iv)	**Recording of data**	It uses both past and present figures.	It is focused with the projection of figures for future.
(v)	**Development**	Its development is related to industrial revolution.	It develops in accordance to the need of modern business world.

III. OBJECTIVES OF COST ACCOUNTING

Following are the objectives of Costing :

1. **Cost Ascertainment:** This involves collection of cost information, by recording them under suitable heads of account and reporting such information on a periodical basis. It simply means calculation of cost. Cost calculation also helps in ascertainment of profit.

2. **Cost Estimation for Determination of Selling Price and Profitability:** In many business situations, we need to quote a price to the customer before accepting his order. In such case you need to first estimate the cost and then add profit to provide the price quotation to the customer.

3. **Cost Control:** Cost has an inherent tendency to go up; hence cost control becomes a very important feature of Cost Accounting. To exercise control over cost, following steps are followed:
   a. Determination of pre-determined standard or results: Standard cost or performance targets for a cost object or a cost centre is set before initiation of production or service activity.
   b. Measurement of actual performance: Actual cost or result of the cost object or cost centre is measured. Performance should be measured in the same manner in which the targets are set i.e. if the targets are set operation-wise, and then the actual costs should also be collected and measured operation wise to have a common basis for comparison.
   c. Comparison of actual performance with set standard or target: The actual performance so measured is compared against the set standard and desired target. Any deviation (variance) between the two is noted and reported to the appropriate person or authority.
   d. Analysis of variance and action: The variance in results so noted are further analysed to know the reasons for variance and appropriate action is taken to ensure compliance in future. If necessary, the standards are further amended to take developments into account.

4. **Cost Reduction:** It may be defined "as the achievement of real and permanent reduction in the unit cost of goods manufactured or services rendered without impairing their suitability for the use intended or diminution in the quality of the product." Cost reduction is an approach of management where cost of an object is believed to be further reducible. No cost is termed as lowest and every possibility of cost reduction is explored.

To do cost reduction, the following action is taken:

a. Each activity within an entity is segmented to analyse and identify value added & non value added activities. All non-value added activities are eliminated without affecting the essential characteristics of the product or process. Value chain Analysis, a strategic tool, developed by Michael Porter, is one of the method to do value analysis.

b. Conducting continuous research and study to know better way to do anything. The three-fold assumptions involved in the definition of cost reduction may be summarised as under:

(i) There is a saving in unit cost.

(ii) Such saving is of permanent nature.

(iii) The utility and quality of the goods and services remain unaffected, if not improved.

5. Assisting management in decision-making: Business decisions are taken after conducting Cost-Benefit Analysis. Hence cost and benefits of each option are analyzed and the Manager chooses the least cost option. Thus cost accounting and reporting system assist managers in their decision making process.

Difference between Cost Control and Cost Reduction

Cost Control	Cost Reduction
1. Cost control aims at maintaining the costs in accordance with the established standards.	1. Cost reduction is concerned with reducing costs. It challenges all standards and endeavours to better them continuously
2. Cost control seeks to attain lowest possible cost under existing conditions.	2. Cost reduction recognises no condition as permanent, since a change will result in lower cost.
3. In case of cost control, emphasis is on past and present.	3. In case of cost reduction, it is on present and future.
4. Cost control is a preventive function	4. Cost reduction is a corrective function. It operates even when an efficient cost control system exists.
5. Cost control ends when targets are achieved.	5. Cost reduction has no visible end.

Scope of Cost Accounting - Scope of cost accounting consists of the following functions:

(i) Costing: Costing is the technique and process of ascertaining costs of products or services. The cost ascertainment procedure is governed by some cost accounting principles and rules. Generally, cost is ascertained using some arithmetical process.

(ii) Cost Accounting: This is a process of accounting for cost which begins with the recording of expenditure and ends with the preparation of periodical statement and reports for ascertaining and controlling cost. Cost Accounting is a formal mechanism of cost ascertainment.

(iii) Cost Analysis: It involves the process of finding out the factors responsible for variance in actual costs from the budgeted costs and accordingly fixation of responsibility for cost differences. This also helps in better cost management and strategic decisions.

(iv) Cost Comparisons: Cost accounting also includes comparisons of cost from alternative courses of actions such as use of different technology for production, cost of making different products and activities, and cost of same product/service over a period of time.

(v) Cost Control: It involves a detailed examination of each cost in the light of advantage received from the incurrence of the cost. Thus, we can state that cost is analyzed to know whether cost is exceeding its budgeted cost and whether further cost reduction is possible.
(vi) Cost Reports: This is the ultimate function of cost accounting. These reports are primarily prepared for the use by the management at different levels. Cost reports helps in planning and control, performance appraisal and managerial decision making.
(vii) Statutory Compliances: Maintaining cost accounting records as per the rules prescribed by the statute to maintain cost records relating to utilization of materials, labour and other items of cost as applicable to the production of goods or provision of services as provided in the Act and these rules.

Role and Functions of Cost and Management Accounting -
The role of a cost and management accounting system is to:
❑ Provide relevant information to management for decision making,
❑ Assist management for planning, measurement, evaluation and controlling of business activities,
❑ Help in allocation of cost to products and inventories for both external and internal users.
Though the term cost accounting and management accounting is used by various authors synonymously but in actual, cost accounting is concerned with accumulation and allocation of costs to different cost objects. Whereas, management accounting concerned with provision of information to internal users for decision making.

The functions of cost and management accounting include:
(i) Collection and accumulation of cost for each element of cost.

(ii) Assigning costs to cost objects to ascertain cost.
Cost and management accounting department (whatever nomenclature may be used to denote the department) sets budget and standards for a particular period or activity before hand and these are compared with the assigned and ascertained cost. Any deviation with the set standards are analysed and reported. All these mechanism is done to control costs.

(iii) The main function of cost and management accounting is provision of relevant information to the management for decision making. An Information system environment is set up which is popularly known as management information system (MIS). The MIS provides relevant and timely information related to both internal and external to the organisation to enable management at all levels to take decisions. Decisions include cost optimisation, price fixation, implementation of any plan related with product, process, marketing etc. The performance of a responsibility centre is measured and evaluated against the set standards. The function of cost and management accounting is to gather data like time taken, wastages, process idleness etc., analyse the data, prepare reports and take necessary actions.

IV. Elements of Cost:
Basically there are three elements of costs
1. Material Cost: It is the cost of tangible items, which gets consumed in the process of manufacture.
2. Labour Cost: It is the cost of human efforts.
3. Expenses: It is the cost of intangible items which is neither material nor labour.

These cost elements can be further divided into as:

Direct Material		Indirect Material		
+ Direct Labour		+ Indirect Labour		
+ Direct Expenses		+ Indirect Expenses		
Prime Cost	**+**	**Overheads**	**=**	**Total Cost**

In practice, however, the elements of costs are better known as
1. Material Cost
2. Labour Cost and
3. Overheads Cost

V. DIFFERENT METHODS OF COSTING:

Job Costing - In this case each job is treated as distinct from other and the cost of each job is calculated separately. E.g. Scooter Servicing, Fabrication Workshop, Furniture Manufacturing, etc.

Batch Costing - It is a variation of job costing. A batch is considered as a job and the cost of each batch is calculated separately. E.g., Pharmaceutical Companies, Toothpastes, Spare parts etc.

Contract Costing - It is another variation of job costing, but the job is of a big size relating to civil construction or mechanical erection etc. and involves a longer period to complete. Say more than a year. E.g. Construction of Bridges, Dams, Housing Complexes, Road Building, etc.
(This chapter of contract costing has been deleted from new syllabus of cost & management accounting by ICAI as on 1st July 2023, So contract costing is not applicable for May 2024 Exams and onwards.)

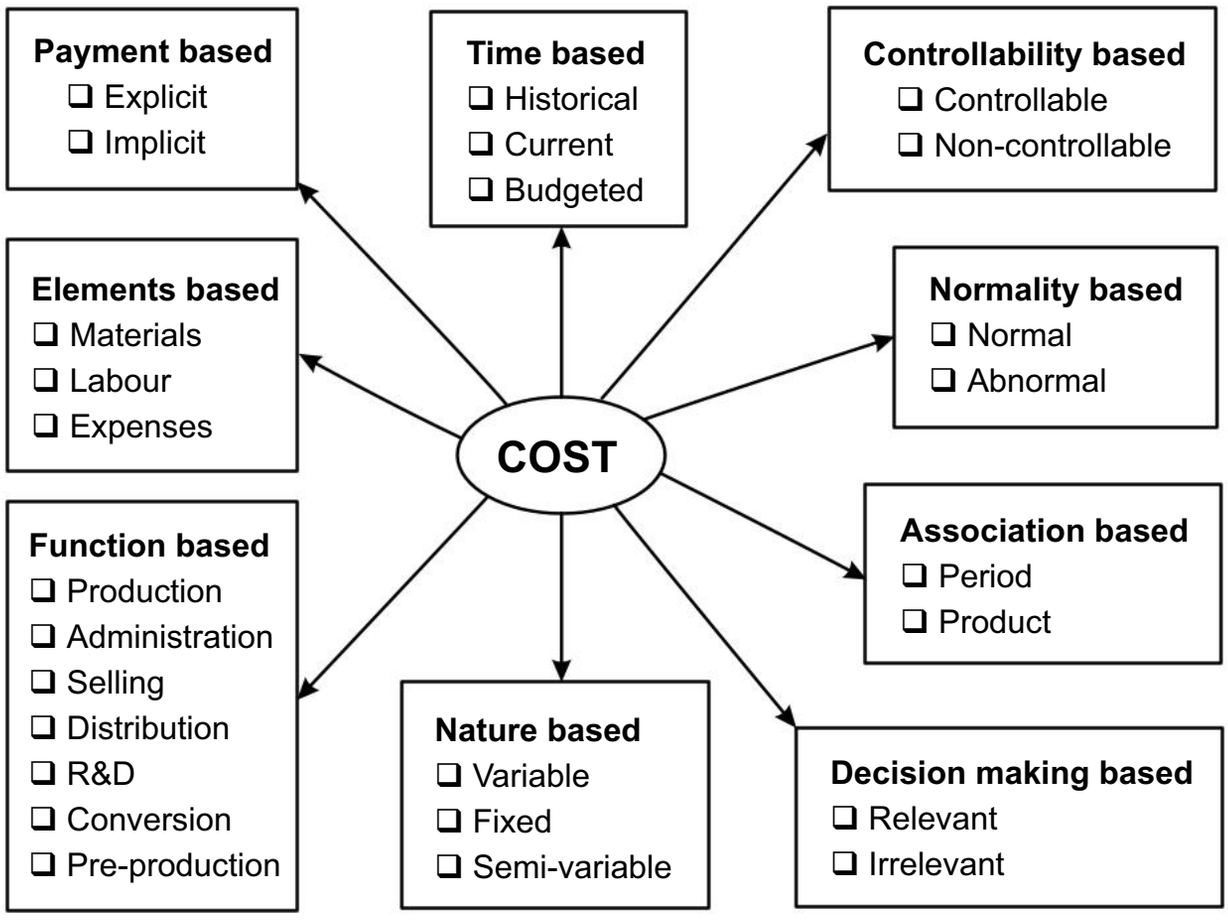
Process Costing/Operation Costing - This method is applied where different processes are involved in a sequence to manufacture a particular product. Cost for each such process is required to be calculated separately. E.g., Sugar factories, Paper industries, Cement industry etc.

Unit/Single/Output Costing - This method is applied where a continuous production of **identical** items is done. E.g., News paper Printing, Electricity generation, Coal mining etc. This is the simplest form of costing method.

Operating/Service Costing - It is applied to service industries like transportation of goods & passengers, hospitals, hotels, health clubs and other service centers.

Multiple Costing - A combination of above different methods of costing may be used as per the need and suitability of the organization. It is called as "Multiple Costing". It is not a separate method of costing but use of a combination of different methods of costing.

VI. DIFFERENT CLASSIFICATIONS OF COSTS



1. **Historical costs:** Costs relating to the past time period; cost which has already been incurred.

2. **Current costs:** Cost relating to the present period.

3. **Budgeted Costs:** Costs relating to the future period; Cost which is computed in advance, on the basis of specification of all factors affecting it.

4. **Controllable Costs:** Cost which can be influenced and controlled by managerial action. These are also known as avoidable cost or discretionary cost etc.

5. **Non-Controllable costs:** These are costs that cannot be influenced and controlled by managerial decisions. These are also known as unavoidable costs or non discretionary costs etc.

6. **Normal Cost:** Costs which can be reasonably expected to be incurred under normal, routine and regular operating conditions.

7. **Abnormal Cost:** Costs over and above normal cost; which is not incurred under normal operating conditions E.g. Fines and Penalties, Goods lost due to fire, Repairs cost due to major machine breakdown etc.

8. **Period Costs:** These are costs which are not assigned to the products but are charged as expenses against the revenue of the period in which they are incurred. These costs vary according to period of time and not according to the number of units produced. Thus, they are fixed costs E.g. Factory Rent, Fixed salary of Office staff, Insurance charges etc.

9. Product Costs: These are costs which will change according to number of units produced. These costs are associated with the product we manufacture and not the period. These are also known as variable costs E.g. Direct Material, Direct Labour etc.

10. Relevant Costs: Costs which are relevant for decision making i.e. avoidable cost or discretionary cost.

11. Irrelevant Costs: Costs which are irrelevant for decision making i.e. unavoidable cost or non-discretionary cost.

12. Variable Costs: These are costs which tend to vary or change in relation to volume of production. They increase in total as production increases and vice-versa. E.g. Cost of raw materials, Direct wages etc. However, variable costs per unit are generally constant for every unit of the additional output.

13. Fixed Costs: These are costs which remain constant at various levels of production. They are not affected by volume of production. E.g. Factory Rent, Insurance etc. Fixed Costs per unit vary inversely with volume of production, i.e. if production increases; fixed cost per unit decreases and vice-versa. Sometimes, these are also known as **Capacity costs or Period Costs.**

14. Semi-variable Costs: These are costs which are partly fixed and partly variable. These are fixed upto a particular volume of production and become variable thereafter for the next level of production. Some examples are Repairs and Maintenance cost, Electricity bills, Telephone bills etc.

15. Production Cost: It is the costs related to manufacturing activities. Thus it is equal to the total of Direct Materials, Direct Labour, Direct Expenses and Production Overheads.

16. Administration Cost: The cost of formulating the policy, directing the organisation and controlling the operations of the undertaking, which is not directly related to production, selling distribution, research or development activity or function. Some examples are Office Rent, Accounts Department Expenses, Audit and Legal Expenses, Directors Remuneration, Printing & Stationery, Telephone & Postage etc.

17. Selling Cost: It is the cost of generating demand. These are sometimes called marketing costs. Some examples are Advertisement, Salesmen remuneration, Show-room Expenses, Cost of samples etc.

18. Distribution Cost: It is the cost of satisfying the demand. Some examples are secondary packing of goods for the convenience of material handling and transportation, carriage outwards, maintenance of delivery vans, expenditure incurred in transporting articles to central or local storage, expenditure incurred in moving articles to and from prospective customers (as in Sale or Return) etc.

19. Research Cost: The cost of researching for new or improved products, new applications of materials or improved methods.

20. Development Cost: The cost of the process which begins with the implementation of the decision to produce a new or improved product, or to employ a new or improved method and ends with commencement of formal production of that product or by that method.

21. Pre-production Cost: It is the cost incurred before starting actual commercial production. For example, Cost incurred in making a trial production run, cost of moulds & designs, cost of training the workers etc.

22. Materials: Cost of tangible, physical input used in relation to output / production, E.g., Cost of raw materials, Consumable stores, Maintenance items etc.

23. Labour: Cost incurred in relation to human resources of the enterprise; e.g. wages to workers, Salary to Office Staff, Training Expenses etc.

24. Expenses: Cost of operating and running the enterprise, other than materials and labour; they are the residual category of costs. E.g. Factory Rent, Office Maintenance, Depreciation, Electricity etc.

25. Direct Costs: Costs which are directly related to / identified with / attributable to a cost object or a Cost unit. E.g. Cost of basic raw material used in the finished product, Wages paid to site labour in a contract etc. In simple words, it is a specific cost.

26. Indirect Costs: Costs which are not directly identified with a cost object or a cost unit. Such costs are apportioned over different cost centers using appropriate basis. E.g., Factory Rent incurred over various departments; Salary of supervisor engaged in overseeing various construction contracts etc. In other words, it is a common cost.

DISTINGUISH BETWEEN EXPLICIT AND IMPLICIT COSTS.

Particulars	Explicit Costs	Implicit Costs
Meaning	Costs which involve cash payment.	Cost which do not involve cash payment.
Otherwise known as	Out of pocket cost, Actual cost	Opportunity costs / Notional costs / Imputed cost / Hidden Cost
Measurement	These are actually incurred and hence can be easily and objectively measured.	They are not actually incurred. They cannot be easily measured and involves a subjective estimation
Recording in books of accounts	These are recorded in the books of accounts.	These are not recorded in the books of accounts.
Purpose	Accounting, Reporting, Cost Control & Decision Making	Used only in Decision Making.
Examples	Actual rent paid, Salaries of staff, Advertisement etc.	Interest on own capital, Rent of own premises, Salary of proprietor etc.

VII. TECHNIQUES OF COSTING :

1. **Marginal Costing:** This technique is popularly used for managerial decision making. This technique recognizes the division of cost as Variable cost and Fixed cost only.

2. **Standard Costing:** It is a technique whereby; standard costs and revenues are pre-determined and later on compared with actual costs and revenues. Standard costing is extremely helpful for cost control and is generally used along with budgetary control.

3. **Budgets & Budgetary Control:** This technique involves preparation of budgets and use of budgets in proper planning and overall managerial control of the organization.

VIII. BASIC COST CONCEPTS:

1. **Cost Centre:** It is defined as a location, person or item(s) of equipment for which cost may be ascertained and used for the purpose of cost control. Cost centers are of two types.
   a. Personal Cost Centre: Consisting of a person or a group of persons.
   b. Impersonal Cost Centre: Consisting of a location or an item(s) of equipment.

In case of manufacturing concerns cost centers are mainly of two types:

Production Cost Centre	Service Cost Centre
It is a cost centre where raw material is processed and converted into finished product.	It is a cost centre, which serves as an ancillary unit and renders services to a production cost centre.
Here both direct and indirect costs are incurred.	Here only indirect costs are incurred. There are no direct costs as there is not measurable and saleable output.
Machine shops, welding shops and assembly shops are examples of production Cost Centres.	Power-house, Gas production shop, Storage of material, Plant maintenance centers are examples of service cost centres.

Responsibility Centre:

Meaning:

- ❑ It is an activity centre of a business organisation entrusted with a special task.
- ❑ It is a unit of function of a business organisation headed by an executive responsible for its performance.

Types of Responsibility Centres:

Particulars	Cost Centres	Revenue Centres	Profit Centres	Investment Centres
Meaning	A centre for which a standard amount of cost is pre-determined and used for control.	A centre devoted to raising revenue (no responsibility for production).	A centre whose performance is measured in terms of income earned and cost incurred (profit earning).	A centre responsible for generating adequate return on investment by effective utilization of assets.

Primary responsibility	Cost reduction and Cost control	Generation of sale revenue.	Profit earning.	Earning return on Investments.
Performance evaluation	Standard cost Less: Actual cost	Budgeted revenue Less : Actual revenue	Budgeted profits Less: Actual profits	Budgeted ROI Less: Actual ROI
Other points	Control of cost is subject to - 1. Time 2. Location 3. Product	Also responsible for some expenses related with marketing of products.	In this case one division may have to sale its output to another within division the organization at profit, to achieve its profit target.	Value of Investment in this responsibility centre needs to be carefully defined and return on investment to be defined as before tax or after tax, before interest or after interest etc

2. Cost Unit : Cost unit is a unit of measurement in which cost may be ascertained. Examples

Product / Service	Cost Unit	Product / Service	Cost Unit
Soaps, Wire / Cable Dairy (Milk), Goods transport, Passenger transport, Wood / Gas, Food grains, Sugar Hospital, Automobile	Number / Carton, Meter / Kilometer, Liter / Bag Tonne kilometer, Passenger Kilometer Cubic Feet (cft), Kg./ Quintal / Tonne, Per Tonne, Per patient day, Per vehicle / Number	Brickworks Building Cement Power Paper Textiles Road contractors Bicycle Pharmaceuticals Steel	Per 1000 brick, Square foot, Tonne, Kilowatt hour, Rim Meters Per mile / kilometer Number 1000 tablets, Tonne

3. Replacement Cost: It is the current market cost of replacing an asset or material.

4. Sunk Cost: The costs which have already been incurred in the past (i.e. historical costs) and will not require current cash expenditure are called as sunk costs.

5. Conversion Cost: It refers to direct wages, direct expenses and overhead costs for converting raw materials to the finished stage or for converting a material from one stage of production to the other.

6. Marginal Cost: Marginal cost is the total variable cost i.e. prime cost plus variable overheads. It is assumed that variable cost varies directly with production whereas fixed cost remains fixed irrespective of volume of production. Marginal cost is a relevant cost for decision making as this cost will be incurred in future for additional units of production.

7. Direct Expenses: These are expenses which can be allocated directly to jobs, products, processes, costcentres or cost units. According to CIMA, London, Direct Expenses are 'cost other than material and wages which are incurred for a specific product or saleable services'. These are also known as Chargeable Expenses.

Nature of Direct Expenses:

- ❑ These are expenses other than Direct Materials and Direct Labour.
- ❑ These are either allocated or charged completely to cost centers or cost units.
- ❑ These are included in the Prime cost of a product.

Examples:

a. Hire charges of special machinery or plant for a particular production order or job.
b. Payment of royalties.
c. Cost of special moulds, designs and patterns.
d. Experimental cost before undertaking the concerned job.
e. Traveling and conveyance expenses incurred in connection with a particular job.
f. Sub-contracting expenses or outside work costs, where jobs are sent out for special processing.

IX. COMPARATIVE ANALYSIS BETWEEN VALUE, PRICE AND COST

Particulars	Value	Price	Cost
Meaning	Relative Worth of a commodity to an individual at a particular point of time.	It is the sales price charged by the seller of goods or services to the buyer.	Expenditure incurred in producing a product or in rendering a service.
Ascertained from	User's viewpoint	Seller's viewpoint	Producer's viewpoint
Differentiation / Subjectivity	Different persons attach different values to a product at different points of time.	It is policy decision of the management to fix the sales price of the product or services. They may also change the price from time to time.	Ascertained on the basis of uniform principles. Hence it is objectively determined.
Inference	**Opinion**	**Policy**	**Fact**

X. IMPORTANCE AND ADVANTAGES OF COST ACCOUNTING

1. A cost system identifies unprofitable activities, losses or inefficiencies such as wastage of manpower in the form of idle time, wastage of material in the form of spoilage, scrap or wastage of resources in the form of inadequate utilization of plant & machinery, production or service facilities, etc.
2. Cost accounting locates the causes for decrease or increase in the profit or loss by identifying unprofitable products or product lines.
3. Cost accounts furnish suitable data and information to the management for decision making such as make or buy, continue or shut down, product mix, to sell below cost or not, accept or reject etc.
4. It helps management to fix the selling price and to furnish quotations / tenders.
5. Application of Standard Costing & Budgetary Control techniques helps management to achieve optimum level of efficiency and control cost.
6. Variance analysis locates the areas of inefficiencies which require managerial attention. Thus, saving time and energy through management by exception.

7. Determination of Cost Centers helps management to define and fix responsibilities upon individuals.
8. Cost of closing stock of raw materials, Work-in-progress and Finished goods can be easily obtained from cost records and used in the financial accounting to determine the quantum of profit or loss of the business.

XI. INSTALLATION OF A COST SYSTEM:

There is no one readymade cost system, which is suitable for all types of businesses. Therefore a cost system has to be specially designed for an undertaking to meet its specific needs. Before installing a cost system proper care should be taken to study all aspects involved and the needs of the business, otherwise the system will be a misfit and full advantage may not be derived from it.

The following points should be considered before installing a cost system:

i. The nature, method and stages of production, the number of varieties, quantity of each product and such other technical aspects as necessary to design a costing system.
ii. The size, layout and organisation of the factory or service unit.
iii. The existing methods and procedures of purchase, receipts, storage and issue of materials.
iv. Existing wage payment methods.
v. The needs and requirements of management with the view to control costs.
vi. Willingness and co-operation of the staff and workers, etc.

Essentials of a Good Costing System:

1. It must be cost effective and economical.
2. It should be simple to understand and easy to operate.
3. It should involve minimum clerical work and expenditure.
4. It should fulfill the requirements and needs of management for cost control.
5. It should be flexible to take care of any change, expansion/modernization without much difficulty and cost.
6. The new system should be introduced with the simple & minimum modifications to the existing cost system, if any.

XII. DIFFERENCE BETWEEN COST ACCOUNTING & FINANCIAL ACCOUNTING:

Sr. No.	Particulars	Cost Accounting	Financial Accounting
1.	Definition	It is the application of costing and cost accounting principles, methods & techniques to the science, art and practice of cost control and the ascertainment of profitability. It includes the presentation of information derived there from for the purpose of managerial decision making.	It is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part atleast of a financial character and interpreting the results thereof.
2.	Details Provided	It provides financial analysis of the business affairs product wise, service wise, element wise, or activity wise.	It gives financial picture and the state of affairs of a business in totality.

Sr. No.	Particulars	Cost Accounting	Financial Accounting
3.	Users of Information	It renders information for the guidance of management, proper planning, operation control and decision making.	It safeguards the interests of the business, its properties and other concerned like creditors, shareholders, tax authorities.
4.	Main Objective	The main object is to ascertain the correct cost of production / Services.	The main object is to ascertain correct profit / loss position and to give a true and fair view of the state of affair of business.
5.	Time Period	It is future oriented activity.	It is a post mortem activity.
6.	Usefulness	It forms the basis for managerial decision making like make or buy, continue or shutdown, product mix, etc.	It forms the basis for fulfilling the legal requirements like Income-tax Act, Companies Act, Excise & Customs Act, etc.
7.	Final Output	The final output is in the form of a Cost-Sheet.	The final output is in the form of Profit and Loss A/c and Balance Sheet.
8.	Objective	Profit Maximization is the objective.	Profit/Loss Ascertainment is the objective.
9.	Stock Valuation	Stocks are valued generally at cost.	Stocks are valued at Cost or Net Realizable Value whichever is less.
10.	Nature of costs	It considers both historical costs and pre-determined costs and extends to plans and policies to improve future performance. It also considers explicit and implicit cost.	Generally historical costs are used for recording purposes. Only explicit i.e. actual cost is used in financial reporting.

MULTIPLE CHOICE QUESTIONS

1. _____is anything for which a separate measurement is required.

a. Cost unit b. Cost object c. Cost driver d. Cost centre

2. Which of the following is true about Cost control:

a. It is a corrective function
b. It challenges the set standards
c. It ends when targets achieved
d. It is concerned with future

3. Cost units used in power sector is:

a. Kilo meter (K.M)
b. Kilowatt-hour (kWh)
c. Number of electric points
d. Number of hours

4. Processes Costing method is suitable for

a. Transport sector
b. Chemical industries
c. Dam construction
d. Furniture making

5. Distinction between direct cost and indirect cost is an example of _____ classification

a. By Element b. By Function c. By Controllability d. By Variability

6. The advantage of using IT in Cost Accounting does not include:

a. Integration of various functions
b. Stock needs to be reconciled with Goods Received Note
c. Reduction in multicity of documents
d. Customised reports can be prepared.

7. A taxi provider charges minimum ₹80 thereafter ₹12 per kilometer of distance travelled, the behaviour of conveyance cost is:

a. Fixed Cost
b. Semi-variable Cost
c. Variable Cost
d. Administrative cost.

8. A Ltd. has three production department and each department has two machines, which of the following cannot be treated as cost centre for cost allocation:

a. Machines under the production department
b. Production departments
c. Both Production department and machines
d. A Ltd.

9. Which of the following is an example of functional classification of cost:

a. Direct Material Cost
b. Fixed Cost
c. Administrative Cost
d. Indirect Overheads

10. Ticket counter in a Railway Station is an example of

a. Cost Centre
b. Revenue Centre
c. Profit Centre
d. Investment Centre

Digital Costing System

Like the conventional cost accounting system, Digital costing system too collects data, classify the data, account the data to get and process information to make decisions, but the difference is the method of collection, medium of storage, forms of analysis and reporting. Digital costing system links different business functions such as production, procurement, inventory management with the digital costing system of its suppliers, customers and the market through data sharing and network interaction.

Digital Costing System provides data to get the following information:

(i) Cost incurred on a cost object.
(ii) Data on time spent.
(iii) Data on resource consumption.
(iv) Data on current market price of final product and raw materials.
(v) Data on lead time and availability of materials.
(vi) Data on product demand and trend.

Benefits of Digital Costing System

With the help of Artificial Intelligence (AI) and Machine learnings (ML) which helps in analysis of the Big data and apprehend the consumption and demand pattern, the following benefits can be achieved:

(i) **Ascertainment of cost** with certainty on a cost object (the cost object is discussed in later paragraph). This helps to analyse the activities for cost allocation and apportionment.

(ii) Analysis of **data on time spent** on each activity to study and formulate incentive plans.

(iii) Helps in **material requirement planning and scheduling** the material procurement. Data on resource consumption can be analysed for resource optimisation and finding the possibilities for zero wastage and Just-in Time (JIT).

(iv) Helps to **identify and eliminate the non-value-added activities.**

(v) Data on resource consumption is helpful in **setting the standards** and measurement of variances on real time basis.

(vi) Data on current market prices of material and consumables helps to **estimate cost and setting standards** on Marked to Market (M2M) basis.

(vii) Extrapolation of data on customer behaviour towards the products to **predict the market demand**. It is helpful is preparation of budgets and planning of production.

(viii) A better analysis of cost behaviour **improves the cost benefit analysis** and equipping the management in informed decision making.

THEORY / PRACTICAL QUESTIONS

Q. 1. Enumerate the main objectives of introduction of a Cost and Management Accounting System in a manufacturing organization.

Q. 2. What is meant by cost centre?

Q. 3. Discuss cost classification based on variability and controllability.

Q. 4. Discuss the essential features of a good cost accounting system.

Q. 5. Enumerate the factors which are to be considered before installing a system of cost accounting.

Q. 6. Discuss the four different methods of costing along with their applicability to concerned industry? State the method of costing and the suggestive unit of cost for the following industries:

(a) Transport	(b) Power	(c) Hotel
(d) Hospital	(e) Steel	(f) Coal
(g) Bicycles	(h) Bridge Construction	(i) Interior Decoration
(j) Advertising	(k) Furniture	(l) Brick-works

EXPERT

COST SHEET

CA INTERMEDIATE - COST AND MANAGEMENT ACCOUNTING

CA VINOD REDDY

COST SHEET

A Cost Sheet is a statement which shows the break-up and build-up of costs. It is a document, which provides for the assembly of the detailed cost of a cost centre or a cost unit.
In a cost sheet, cost information are presented on the basis of functional classification. However, other classification may also be adopted as per the requirements of users of the information.

Functional Classification of Elements of Cost

Under this classification, costs are divided according to the function for which they have been incurred. The following are the classification of costs based on functions:

(i) Direct Material Cost
(ii) Direct Employee (labour) Cost
(iii) Direct Expenses
(iv) Production/ Manufacturing Overheads
(v) Administration Overheads
(vi) Selling Overheads
(vii) Distribution Overheads
(viii) Research and Development costs etc.

Uses of Cost Sheet

The following are the uses of the Cost Sheet :

a. Presentation of Cost information.
b. Determination of Selling Price.
c. Ascertainment of profitability.
d. Product-wise and Location-wise Cost Analysis.
e. Inter-firm and Intra-firm Cost Comparison.
f. Preparation of Cost Estimates for submitting tenders / quotations.
g. Preparation of Budgets.
h. Disclosure of operational efficiency for Cost Control.

COST SHEET

Cost Sheet / Cost Statement:

The cost items in the cost statement shall be presented on 'Basis of relevant classification'.

Specimen Format of Cost Sheet for a Manufacturing entity

	Particulars	Total Cost (₹)	Cost per unit (₹)
1.	Direct materials consumed:		
	- Opening Stock of Raw Material	XXX	
	- Add: Additions/ Purchases	XXX	
	- Less: Closing stock of Raw Material	(xxx)	
		XXX	
2.	Direct employee (labour) cost	XXX	
3.	Direct expenses	XXX	
4.	**Prime Cost (1+2+3)**	**XXX**	
5.	Works/ Factory Overheads	XXX	
6.	**Gross Works Cost (4+5)**	**XXX**	
7.	Add: Opening Work in Process	XXX	
8.	Less: Closing Work in Process	(xxx)	
9.	**Net Works/ Factory Cost (6+7-8)**	**XXX**	
10.	Quality Control Cost	XXX	
11.	Research and Development Cost	XXX	
12.	Administrative Overheads (relating to production activity)	XXX	
13.	Less: Credit for Recoveries/Scrap/By-Products / misc. income	(xxx)	
14.	Add: Packing cost (primary)	XXX	
15.	**Cost of Production (9+10+11+12-13+14)**	**XXX**	
16.	Add: Opening stock of finished goods	XXX	
17.	Less: Closing stock of finished goods	(xxx)	
18.	**Cost of Goods Sold (15+16-17)**	**XXX**	
19.	Add: Administrative Overheads (General)	XXX	
20.	Add: Marketing Overheads		
	- Selling Overheads	XXX	
	- Distribution Overheads	XXX	
21.	**Cost of Sales (18+19+20)**	**XXX**	

MULTIPLE CHOICE QUESTIONS

1. Generally, for the purpose of cost sheet preparation, costs are classified on the basis of:

(a) Functions
(b) Variability
(c) Relevance
(d) Nature

2. Which of the following does not form part of prime cost:

(a) Cost of packing
(b) Cost of transportation paid to bring materials to factory
(c) GST paid on raw materials (input credit can not be claimed)
(d) Overtime premium paid to workers.

3. A Ltd. received an order, for which it purchased a special frame for manufacturing, it is a part of

(a) Direct Materials
(b) Direct expenses
(c) Factory Overheads
(d) Administration Overheads

4. Salary paid to plant supervisor is a part of

(a) Direct expenses
(b) Factory overheads
(c) Quality control cost
(d) Administration cost

5. Depreciation of director's laptop is treated as a part of:

(a) Administration Overheads
(b) Factory Overheads
(c) Direct Expenses
(d) Research & Development cost.

6. A manufacture has set-up a lab for testing of products for compliance with standards, salary of this lab staffs are part of:

(a) Works overheads
(b) Quality Control Cost
(c) Direct Expenses
(d) Research & Development Cost.

7. Audit fees paid to auditors is part of :

(a) Administration Cost
(b) Production cost
(c) Selling & Distribution cost
(d) Not shown in cost sheet.

8. Salary paid to factory store staff is part of:

(a) Factory overheads
(b) Production cost
(c) Direct Employee cost
(d) Direct Material Cost.

9. Canteen expenses for factory workers are part of:

(a) Factory overhead
(b) Administration Cost
(c) Marketing cost
(d) None of the above.

10. A company pays royalty to State Government on the basis of production, it is treated as:

(a) Direct Material Cost
(b) Factory Overheads
(c) Direct Expenses
(d) Administration cost.

WEL-COME to CA-INTER

PAPER - 4

COST & MANAGEMENT ACCOUNTING

SEPT 2026 & JAN / MAY 2027 EXAMS

Target Marks : /100

CA VINOD REDDY

Syllabus for SEPT 2026 & JAN / MAY 2027 Examination

Basic Knowledge	Methods of Costing	Techniques of Costing
(1) Introduction to cost & mgmt accounting (Basic cost concepts)	(8) Joint product & By product costing	(13) Marginal costing
(2) cost - sheet	(9) process / operation costing	(14) standard costing
(3) Material costs	(10) unit / Batch costing	(15) Budgets & Budgetary control
(4) Employee / Labour cost & DE	(11) Job costing	MCQ - is
(5) overheads & absorption costing	contract costing 85th (X)	Q1 - compulsory (14)
(6) ABC (activity based costing)	(12) service costing OR operating costing	Q2, Q3, Q4, Q5, Q6 — 14 marks — solve any 4 out of 5 questions
(7) cost Ledger accounting		

Question 1:

What is Cost ?

in simple words cost is the expenditure incurred in producing goods and/or rendering services

cost is the monetary value of all sacrifices made to asheive an objective (To produce goods and/or render services)

Question 2:

What is Difference between Cost, Price, Value?

cost	price	value
cost is monetary value of all sacrifices to achieve objectives	monetary consideration to be paid by buyer to seller	Relative worth in the mind of consumer
Ascertained from producer/manufacturer point of view	sellers point of view	consumers point of view
a fact	a policy	an opinion

IEntite.am

Question 3:

What is Costing?

The process of ascertainment/estimation of cost by using various methods/techniques is known as costing

Methods of costing are mainly used for :
- Accounting

Techniques of costing are mainly used for :
- Decision making

Question 4 :

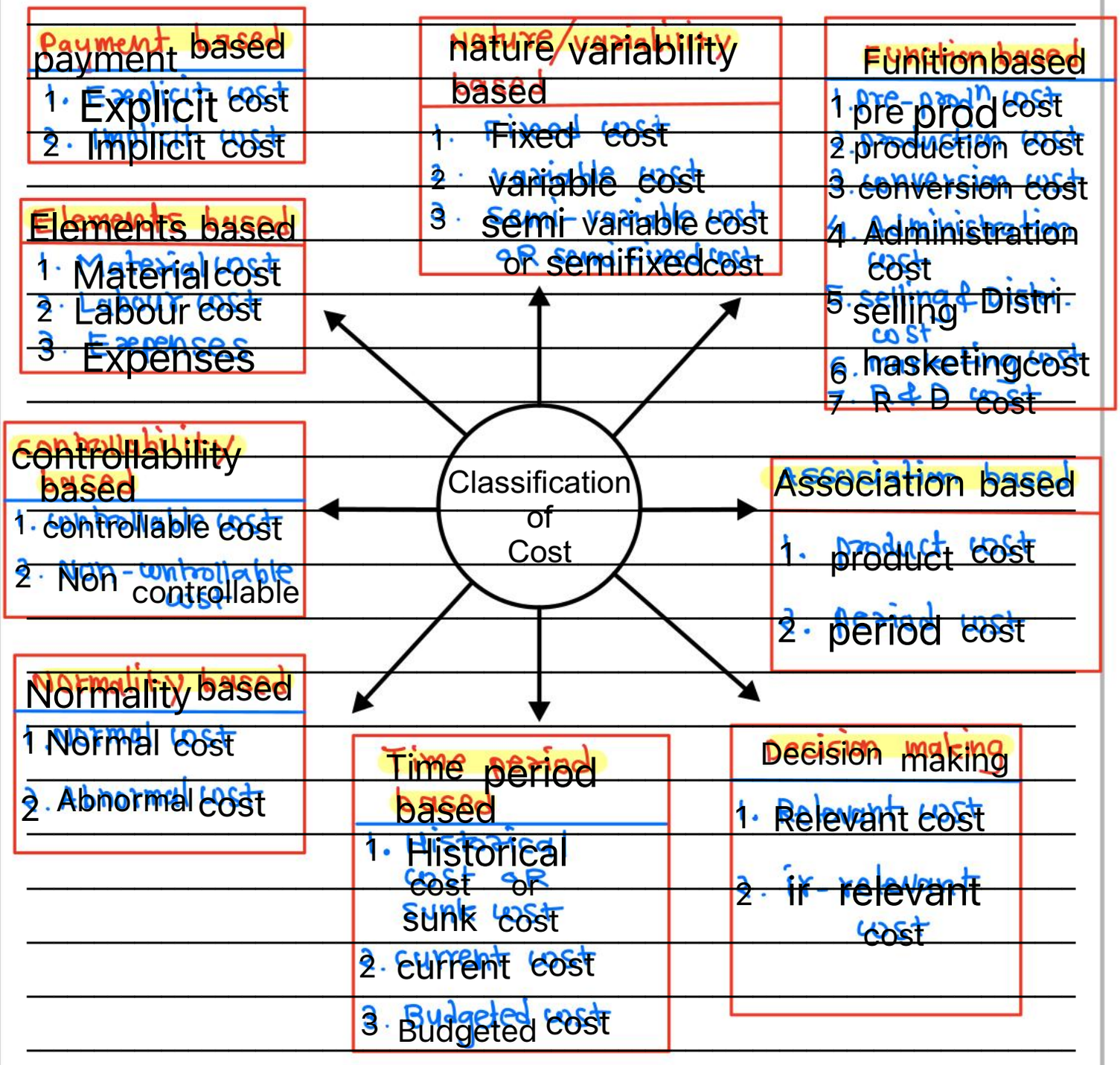
What is Cost Accounting?

It is collection, classification & appropriate allocation of expenditure insurred in producing goods and/or rendering services

Question 5 :

What is the difference between Explicit cost and Implicit cost ?

point of difference	Explicit cost	Implicit cost
payment	involves payment	does not involve payment
otherwise known as	Accounting cost OR out of pocket cost	opportunity cost OR Imputed cost OR notions cost OR Hidden cost
Recording	Recorded in Books of accounts	Not recorded in Books of accounts
use	Accounting & Decision making	only for managerial decision making
subjective/ objective	can be objectively determined as it involves payment	it involves subjective estimates
Examples	Rent paid, Salary paid, Electricity bill, Depreciation etc	Rent foregone, salary foregone, interest on capital. etc



what are the types of cost on the basis of nature variability?

→ ① Fixed cost : The cost which doesn't change with change in output production level of activity/ volume of production is known as Fixed cost. It is a period cost

② variable cost : The cost which changes in the same proporti with change in volume of production is known as variable cost

③ Semi variable cost : If portion of cost is fixed and portion is variable then cost is said to be semi variable is nature.

No. of Units Produced & Sold	Rent (₹)	Supervision cost (₹)	Selling cost (₹)	Distribution cost (₹)	Maintenance cost (₹)
10,000	20,00,000	5,00,000	8,00,000	80,000	5,00,000
20,000	20,00,000	6,00,000	16,00,000	85,000	5,00,000
30,000	20,00,000	7,00,000	24,00,000	90,000	5,00,000
Nature of cost	Fixed cost Eet	Semi-Vari. cost semisfari	Variable cost gastable	Semi-Vari. cost seristas	Fixed cost Else

Volume of Production	Fixed Cost		Variable Cost	
	Total	Per Unit	Total	Per Unit
Increases	Remains same	↓	↑	Remains same
Decreases	Remains same	↑	↓	Remains same

Question 6 :

Which cost changes with change in volume of production?

Total variable cost & per unit Fixed cost changes with change in volume of production.

Total variable cost increases & Fixed cost p.u. decreases with increase in volume of production

Total variable cost decreases & Fixed cost p.u. increases with decrease in volume of production

Question 7 :

Which cost does not change with change in volume of production?

Total Fixed cost & variable cost p.u. doesn't change with change in volume of production.

Total Fixed cost & variable cost pay. } Remains same irrespective of level of output or volume of production

Question 8 :

No. of Units Produced	Repairs & Maintenance Cost (₹)
50,000	9,00,000
60,000	9,40,000

Segregate repairs & maintenance cost & Find out Fixed R&M cost, variable R&M cost p.u. Total R&M cost if 78,000 units are produced.

① Simultaneous Eqns method for segregation of semi variable cost

Let Fixed R & M cost be ₹F & variable R&M cost p.u be ₹V. As per given data

F + 50,000V = 9,00,000 ------ ①
F + 60,000V = 9,40,000 ------ ②

-10,000V = -40,000

variable R&M cost p.u = V = 40,000 / 10,000 = ₹4 p.u.

Let's use Eqn ①

F + (50,000 × 4) = 9,00,000

F = Total Fixed cost for the period = ₹ 2,00,000

Total R & M cost if 78,000 units are produced = Fixed cost for the period + (Vari. cost p.u. × No. of units produced)

= ₹ 7,00,000 + (₹ 4 × 78,000 units)

= ₹ 7,00,000 + ₹ 3,12,000 = ₹ 10,12,000/-

② Level of activity method (Most commonly used method for segregation)

Variable R & M wst p.u. = $\frac{\Delta TC}{\Delta Q}$ = $\frac{\text{change in cost}}{\text{change in quantity}}$

= $\frac{₹ 9,40,000 - ₹ 9,00,000}{60,000 - 50,000 \text{ units}}$ = $\frac{₹ 40,000}{10,000 \text{ units}}$ = ₹ 4 p.u.

using data of 50,000 units

Fixed R & M wst for the period = ₹ 9,00,000 − (50,000 units × ₹ 4 p.u.)

= ₹ 7,00,000/-

∴ Total R & M wst if 78000 units are produced = ₹ 7,00,000 + (78000 × ₹ 9)

= ₹ 10,12,000/-

Question 9 :

No. of Units Produced & Sold	Salesman Salary
80,000	₹ 20,00,000
1,20,000	₹ 23,58,000

Segregate salesmen salary by :
1. Level of activity method
2. Method of least squares and Find Total salesmen salary if 1,80,800 units & produced & sold.

→ (simultaneous Equations method)

① Segregation of semi-variable salesmen salary by :

i) Level of activity method

variable salesman salary p.u. = (change in cost ie. salesman salary / change in quantity)

$= \dfrac{₹23,58,000 - ₹20,00,000}{(1,20,000 - 80,000) \text{ units}}$

$= \left(\dfrac{₹3,58,000}{40,000 \text{ units}}\right) = ₹8.95$ p.u.

using data of 1,20,000 units

Fixed salesman salary = ₹23,58,000 − (₹8.95 × 1,20,000 units)

= ₹12,84,000/-

ii) Method of least squares (simultaneous equations method)

Let ₹F be Fixed salesman salary & ₹V p.u. be variable salesman salary

As per given data

F + 80,000 X = 20,00,000 ------ ①

F + 1,20,000 X = 23,58,000 ------ ②

− 40,000 X = − 3,58,000

vari. salesman salary p.u. = y = $\dfrac{3,58,000}{40,000}$ = ₹8.95 p.u.

using Equation ①

F + (80,000 × 8.95) = 20,00,000

Fixed salesman salary = F = ₹12,84,000

② Total salesman salary when 1,80,800 units are produced & sold

= Fixed salesman salary for the period + (V. salesman salary p.u. × 1,80,800 units)

= ₹12,84,000 + (₹8.95 × 1,80,800 units) = ₹29,02,160/-

Question 10:

What are the Five Methods used for segregation of semi variable cost in to its fixed and variable portion?

There are 5 methods used for segregation of semi-variable cost into its fixed & variable portion:

1. Simultaneous Equations method (Least squares method)
2. Level of activity method (Most common used method for segregation of semi-variable cost)
3. Graphical method
4. High point & Low point method
5. Analytical or Trial & error or Management Judgement method (Last resort method)

Question 11 :

Number of units produced	12,000 units	14,000 units
Factory Overhead Cost	₹2,00,000	₹2,06,000

Normal capacity for the period is 20,000 units. Find Factory Overhead cost for 18,000 units.

1. Given Factory overhead cost is semi-variable in nature. Let's segregate it by Level of activity method.

$$\text{variable Factory OH cost p.m} = \left(\frac{\text{change in cost}}{\text{change in quantity}}\right) = \left(\frac{₹6,000}{2,000 \text{ units}}\right) = ₹3 \text{ p.u.}$$

using data of 12,000 units

Fired Factory OH cost for the period = ₹2,00,000 − (₹3 p.u. × 12000 units)

= ₹2,00,000 − ₹36,000

= ₹1,64,000

② Total Factory overhead cost for 18,000 units (18000 units is well within normal capacity)

= Fixed factory OH cost + (Var. Factory OH p.u. × 18000 units)

= ₹1,64,000 + (₹3 × 18000 units) = ₹2,18,000/-

Question 12 :

Particulars	20,000 units	25,000 units
Prime Cost	₹2,00,000	₹2,50,000
Factory Overhead	₹1,50,000	₹1,60,000
Factory Cost	**₹3,50,000**	**₹4,10,000**

Find Factory Cost for 30,000 units, if the normal capacity for the period is 40,000 units.

① Given Factory cost is semi-variable in nature.

Let's analyse the cost

i) Prime cost : It is a variable cost

Prime cost p.u. = $\frac{₹2,00,000}{20000 \text{ units}} = \frac{₹2,50,000}{25000 \text{ units}}$ = ₹10 p.u.

ii) Factory overheads : It is a semi-variable cost

Let's segregate it by level of activity method

Variable factory OH cost p.u. = $\left(\frac{\text{change in cost}}{\text{change in quantity}}\right) = \frac{₹10,000}{5000 \text{ units}}$ = ₹2 p.u.

using data of 20,000 units

Fixed Factory OH cost = ₹1,50,000 − (20,000 units × ₹2)

= ₹1,10,000/-

② calculation of Factory cost of 30,000 units

= Prime cost + Factory OH cost

= (₹10 p.u. × 30000 units) + [₹1,10,000 + (₹2 p.u. × 30000 units)]

= ₹3,00,000 + ₹1,70,000 = ₹4,70,000/-

Question 13:

No. of Units Produced & Sold	Maintenance cost (₹)
5,000	80,800
6,000	82,480

Find fixed maintenance cost for the period, variable maintenance cost p.u., maintenance cost corresponding to 7,850 units.

① Given maintenance cost is semi-variable in nature.
Let's segregate it by level of activity method,

variable maintenance cost p.u. = (Change in cost / Change in quantity)

= ₹82,480 − ₹80,800 / (6000 − 5000) units = ₹1,680 / 1000 units

= ₹1.68 p.u.

using data of 5000 units

Fixed maintenance cost for the period = ₹80,800 − (5000 × ₹1.68)

= ₹80,800 − ₹8,400 = ₹72,400

② Total maintenance cost corr. to 7850 units
(Assuming 7850 units is within normal capacity)

= ₹72,400 + (7850 units × ₹1.68 p.u.) = ₹85,588

Question 14:

No. of Units Produced	Rent (₹)	Selling cost (₹)	Maintenance cost (₹)	Distribution cost (₹)	Supervision cost (₹)
8,000	2,00,000	1,60,000	2,00,000	5,00,000	90,000
10,000	2,00,000	2,00,000	2,10,000	6,25,000	95,000
Nature of cost	Fixed	variable cost	Semi-variable	variable cost	Semi-variable
11,500	2,00,000	2,30,000	2,17,500	7,18,750	98,750

Fill in the blanks.

① Rent : It is a Fixed cost
Assuming 11,500 units is within normal capacity,
Rent will be ₹2,00,000 for 11,500 units also.

② Selling cost : It is a variable cost

variable selling wst pin = ₹1,60,000 / 8,000 units = ₹2,09000 / 10,000 units

= ₹20 P Y.

∴ selling cost for 11,500 units = ₹20 p.us × 11,500 units

= ₹2,30,0001

③ Maintenance cost : It is a semi variable cost.

Let's segregate it by level of activity method.

Y blf maintenance = (Change in cost / change in quantity) = (₹10,000 / 2000 units) = ₹5 lS

using data of 8000 units

Fixed maintenance cost for the period = ₹2,00000 − (8000 units × FSP 4)

= ₹1,60,0001

∴ Total maintenance cost for 11,500 units = F160,000 + (FSP U × 11,500 units)

= ₹2,17,5001

④ Distribution cost : It is a variable cost.

variable districost P.m = ₹5109000 / 8,000 units = ₹6,25,000 / 9 lS = ₹62.50 6359

i Total Distri cost for 11,500 units = 62.50 × 11,500 units

= T 7,18,7501

⑤ supervision cost : It is a semi variable cost

Let's segregate it by level of activity method.

variable supervision cost p.u = (Change in cost / change in quantity) = ₹9000 / 2000 units

= ₹2.50 p.is

using data of 8000 units

Fixed supervision wst for the period = ₹90,000 − (8000 × 2.50)

= ₹70,000

∴ Total supervision cost for JP olosyppgisionwstfor 11,500 units = ₹70,000 + (2.50 p 4 × 11,500 units)

= ₹98,7501

Question 15:

Particulars	20,000 units	25,000 units
Prime Cost	₹3,00,000	₹3,75,000
Factory Overhead	₹80,000	₹87,500
Office & Administration OH	₹50,000	₹50,000
Selling OH	₹80,000	₹1,00,000
Distribution OH	₹70,000	₹72,500
TOTAL (Cost of sales)	**₹5,80,000**	**₹6,85,000**

Find Cost of Sales for 22,500 units, if the Normal capacity for the period is to produce and sell 40,000 units

① Analysis of cost

i) prime cost : It is a variable cost

prime cost p.u = (₹3,00,000 / 20,000 units) = (₹3,75,000 / 25,000 units) = ₹15 p.u

38,8 its Ep's

ii) Factory overheads : It is a semi variable cost

variable Factory OH cost p.u = (change in cost / change in quantity) ..... By using level of activity method

= (₹7,500 / 5,000 units) = ₹1.50 p.m

using data of 20,000 units

Fixed Factory on wst for the period = 80,000 − (20,000 × 1.50)

= 250,000

iii) office & Administration overheads :

It is a Fixed cost. It will not change till normal capacity of 40,000 units for the period.

iv) selling overheads : It is a variable cost

selling on wstp.us = (₹80,000 / 20,000 units) = (₹1,00,000 / 25,000 units) = ₹4 p.y

8,91 1.09000

x) Distribution overheads : It is a semi variable cost

variable Distri OH cost p.y = (change in cost / change in quantity) ..... By using level of activity method

$= \left(\dfrac{₹2,500}{5000 \text{ units}}\right) = ₹0.50$ p.u.

using data of 25,000 units

Fixed Distri OH cost for the period = ₹72,500 − (25,000 × ₹0.50 p.u.)
= ₹60,000

② Statement showing total cost of sales for 22,500 units

particulars	Amt (₹)	Amt (₹)
ⓐ prime cost (₹15 × 22,500 units)		3,37,500
ⓑ Factory overheads		83,750
Fixed :	50,000	
variable : (₹1.50 × 22,500)	33,750	
ⓒ office & Administration OH (Fixed)		50,000
ⓓ Selling OH (₹4 p.u. × 22,500 units)		90,000
ⓔ Distribution OH		71,250
Fixed :	60,000	
variable : (₹0.50 × 22,500)	11,250	
ⓕ Total cost of sales of 22,500 units (a to e)		6,32,500

Question 16:

Particulars	Year 1	Year 2
No. of units produced	8,000	9,000
Selling & Distribution cost	1,00,000	1,02,500

Find :

1) Fixed S&D cost for the year.

2) Variable selling & distribution cost p.u.

3) Selling & Distribution for the year if 9,500 units are produced.

⟹

① Given selling & distribution cost is semi variable in nature. Let's segregate it by level of activity method.

variable selling & distri. cost per unit = (Change in cost / Change in quantity) = ₹2,500 / 1,000 units = 2.50 p.u

using data of Year-1

Fixed selling & Distri cost for the year = ₹1,00,000 − (8000 units × 2.50) = ₹80,000/- = 80,0001

② Total selling & distri. cost for the year if 9500 units are produced & sold = 80,000 + (₹2.50 p.4 × 9500 units) = 80,0007 + 23,750 = ₹1,03,7501/-

(It is assumed that 9500 units is within normal capacity of the year)

Additional Question

particulars	Jan to March 2018	April to Dec 2018
No. of units produced	8000	30000
Distribution cost	₹1,30,000	₹4,50,000

segregate Distri. cost & Find Total distri. cost if 50,000 units are produced in a year.

① Given distribution cost is semi variable in nature. Let's segregate it by simultaneous equations method

Let Fiseed Distai cost for the month be ₹F & variable distri. cost be ₹V P.u

As per given data: 3F + 80004 = 1,30,000 ---- ①

GF + 30000 Y = 4,50,000 ---- ②

Let's solve these 2 ephs simultaneously

$9F + 24000V = 3,90,000$ ..... After multiplying eqn ① by 3 on both sides

$3F + 30,000V = 4,50,000$

$-6,000V = -60,000$

$V = ₹10$ p.u.

vasi distal cost p.u.

Let's use Eqn ①

$3F + (8000 \times 10) = 1,30,000$

$3F = 50,000$ $\therefore F = ₹16,666.66666666$

∴ Fixed distri cost for the month = ₹16,666.666666

& Fixed distri cost for the year = ₹16,666.66666 × 12 months

= ₹2,00,000/-

② Total distri cost for 50,000 units to be produced & sold in a year

= ₹2,00,000 + (₹10 p.4 × 50,000 units) = 2700,0001

It is assumed that 50,000 units is within normal capacity

Question 17:

Particulars	Jan. - March 2023	April - Dec. 2023
No. of units produced & sold	8,000	20,000
Selling & Distribution cost (₹)	2,80,000	8,00,000

Segregate the cost & Find

i) Fixed S&D cost for the year 2023

ii) Variable S&D cost p.u.

iii) S&D cost if 32,500 units are produced in a year

iv) S&D cost of if 15,800 units are produced in half year.

① Given data in the question is for 3 months & 9 months resp. Level of activity method can be used only when Fired cost involved in both the periods under comparison is same. In this question Fixed cost involved in ₹2,80,000 is of 3 months & Fideed wst involved in ₹8,00,000 is of 9 months.

Let's convert Jan to March data into equivalent 9 months data & use level of activity method

particulars	Jan to march (Equivalent 3 months)	April to Dec (9 months)
No of units produced & sold	8091 × 9 = 24000	20,000
S & D cost	₹ 2 80,000 × 3 = ₹ 890,000	₹ 8,00,000

variable selling & distri cost per unit = (change in cost / change in quantity) = (₹ 40,000 / 4000 units)

= ₹ 10 p.y

using April Dec data

Fixed S & D cost for 9 months = 8,09000 − (20,000 units × ₹ 10 p.y.)

= ₹ 6,00,000/-

∴ Fixed selling & Disti cost for the year = (₹ 6,00,000 / 6,09900) × 12

= ₹ 8,00,000

Fixed selling & Disti cost for the half year = ₹ 4,00,000/-

24,00 0001

(2) selling & distri cost if 32,500 units are produced in a year

= ₹ 8,00,000 + (32,500 units × ₹ 10 p.y.)

= ₹ 11,25,000/-

11,25 0001

(3) selling & distri cost if 15,800 units are produced in half-year

= ₹ 400,000 + (15,800 units × ₹ 10 p.m)

= ₹ 5,58,000/-

5,58 0001

Question 18:

Particulars	Jan - March (2020)	April - Dec (2020)
No. of units produced	5,000	25,000
Total Cost	60,000	2,40,000

Find Fixed cost, Variable cost per unit for the year 2020.

① Given data in the question is for 3 months & 9 months resp.

Level of activity method can be used only when Fixed cost involved in both the periods under comparison is same.

Let's convert Jan to march data in to equivalent 9 months data & use level of activity method,

Particulars	Jan to march 2020 (Equivalent 9 months)	April to Dec 2020 (9 months)
No of units produced	5000 × 3 = 15,000	25,000
Total cost (₹)	60,000 × 3 = 1,80,000	2,40,000

V cost per unit = (change in cost / change in quantity) = ₹60,000 / 10,000 units

= ₹6 p.u.

using Jan - March data

Fixed cost for the period of 3 months = ₹60,000 − (5000 units × ₹6 p.u.)

= ₹30,000

∴ Fixed cost for the year 2020 = (₹30,000 / 3 months) × 12 months

= ₹1,20,000

Question 19:

Particulars	Jan. 2024	Feb. & March 2024
No. of units produced & sold	20,000	45,000
Selling & Distribution cost (₹)	7,00,000	14,50,000

Find Fixed selling cost for the year, Variable selling cost p.u., Selling cost if 69,500 units are produced & sold in year.

⟹ ① Given selling distri cost is semi-variable in nature. To segregate semi variable cost in this question, we can use simultaneous equations method OR Level of activity method.

Let's use simultaneous eqns method,

Let Fixed S&D cost for the month be ₹ F & variable S&D cost be ₹ V p.y.

As per given data,

$$F + 20{,}000\,V = 7{,}00{,}000 \quad \text{---- ①}$$
$$2F + 45{,}000\,V = 14{,}50{,}000 \quad \text{---- ②}$$

Let's multiply each ① by 2 on both sides & solve it with eth ②

$$2F + 40{,}000\,X = 14{,}00{,}000$$
$$-\ 2F \pm 45{,}000\,V = -\ 14{,}50{,}000$$
$$-5{,}000\,V = -\ 50{,}000$$
$$V = ₹\ 10\ \text{P.U.}$$

variable S&D cost p.in

Let's use Eth ①

$$F + (20{,}000 \times 10) = 7{,}00{,}000$$
$$F = ₹\ 5{,}00{,}000$$

Fixed S&D cost for the month

② Total selling & distr cost if 69500 units are produced & sold in a year

= Fixed S&D wst for the year + (U. S&D wst p.u. × 69500 units)

= (₹ 5,00,000 × 12 months) + (₹ 10 × 69500 units)

= ₹ 60,00,000 + ₹ 6,95,000 = ₹ 66,95,001

Question 20:

How to segregate semi - variable cost by graphical method

Semi-variable cost can be segregated into its fixed and variable portion by graphical method by using following steps:

1. plot no of units produced on x-axis & Amount (i.e cost) on Y-axis
2. plot the given observations on Graph paper
3. Draw a best fit line by careful judgement passing through all or majority of points
4. The point where Best fit line will intersect with y-axis will represent Fixed cost for the period
5. variable cost can be calculated by deducting Fixed cost from Total cost. variable cost p.u can also be calculated.

Question 21:

How to segregate semi - variable cost by High point & Low point method.

Particulars	At Lowest volume	At Highest volume
Total cost (₹)	20,00,000	35,00,000
Total sales (₹)	1,00,00,000	3,00,00,000

Segregate the semi - variable cost

1. If data in the question is about Total cost & Total sales at Lowest & Highest volume then we can segregate total cost by using High point & Low point method by using following steps
   - i) Find Difference in total cost at lowest & Highest volum
   - ii) Find Difference in total sales at lowest & Highest volum
   - iii) calculate variable cost ratio

variable cost ratio (in %) = [(Diff in Total cost / Diff in Total sales) × 100] of sales

iv) use data of Either Lowest or Highest volume to calculate Fixed cost

Fixed cost = Total cost − variable cost
= Total cost − (total sales × vari. cost ratio)

pls note : v. cost = sales × v. cost ratio

(2) variable cost in ₹ = (Diff. in Total cost / Diff in Total sales × 100) = ₹15,00,000 / ₹2,00,00,000 × 100

= 7.50% of sales

using data of Lowest volume

Fixed cost for the period = Total cost − variable cost
= Total cost − (sales × vari. wst ratio)
= ₹20,00,000 − (₹1,00,00,000 × 7.50%)
= ₹20,00,000 − ₹7,50,000
= ₹12,50,000

variable cost expressed as a % of sale is known as variable cost ratio

Question 22:

Particulars	Total cost (₹)	Total sales (₹)
At Lowest volume	10,000	80,000
At Highest volume	16,000	2,00,000

Segregate the cost and Find Fixed cost for the period, Variable cost ratio.

(1) variable cost ratio = (Diff. in Total cost / Diff in Total sales × 100)

= (₹6,000 / ₹1,20,000 × 100) = 5% of sales

(2)

using data of Lowest volume

Fixed cost for the period

= Total cost − variable cost

= Total cost − (sales × vari. wst ratio)

= ₹10,000 − (₹80,000 × 5%)

= ₹10,000 − ₹4,000 = ₹6,000

Standard format of a cost-sheet

particulars	Amt (₹)
(a) opening stock of raw material	
(+) purchase during the period	
(−) purchase returns	
(−) sale of raw material scrap	
(−) closing stock of raw materials	
Direct material consumed during the period	XX
(b) Direct Labour/Employee	XX
(c) Direct expenses or chargeable expenses	XX
(d) PRIME COST OR DIRECT COST (a+b+c)	XX
(e) Factory overheads or works/production OH	XX
(f) Gross Factory cost (d+e)	XX
(g) Add: opening wip	XX
Less: closing wip	(XX)
(h) Net Factory cost	XX
(i) Administration overheads related to production	
Add: Quality control wst	
Add: Research & development cost	

	Add: primary packing	
	Less: credit for recovery (sale of scrap, By products etc)	
	COST OF PRODUCTION (of goods produced)	xx
(j)	Add: opening stock of Finished goods	xx
	Less: closing stock of Finished goods	(xx)
(k)	COGS i.e. cost of production of goods sold	xx
(l)	selling, distribution, marketing & General Administration	xx
(m)	cost of sales (k+l)	xx
(n)	sales for the period	xx
(o)	profit (Loss) for the period (n-m) (operating profit or Loss)	xxxxx

cost sheet related formulae

(1) (opening stock of RM + purchase + Direct expenditure − closing stock of RM) = Direct material consumed

(2) (Direct material consumed + Direct Labour + Direct expenses) = prime cost or direct cost

③ prime cost + Factory overheads = Gross Factory ws
OR
Gross QRorks ws

④ Gross factory cost + opening spying_chopping − closing = Net Factory ws
OR
networks cost

⑤ Yet Factory + Admini OH related to prodh including QC & RD wst + primary − credit parking = primary_Egg

= cost of production

⑥ cost of production + opening stock of FG − closing stock of FG = cog

⑦ COGS + selling, Distribution, marketing, General administration OH = cost of sales

⑧ Sales − cost of sales = operating profit for the period

Question 23:

The following information has been obtained from the records of Pranita Corporation for the period from June 1 to June 30, 2018:

Particulars	On June 1, 2018 (₹)	On June 30, 2018 (₹)
Cost of raw materials	60,000	50,000
Cost of work-in-process	12,000	15,000
Cost of stock of finished goods	90,000	1,10,000
Purchase of raw materials during June 2018		4,80,000
Wages paid (Direct wages)		2,40,000
Factory overheads		1,00,000
Administration overheads (related to production)		50,000
Selling & Distribution overheads		25,000
Sales		10,00,000

Prepare a statement giving the following information:
(a) Raw Materials Consumed;
(b) Prime Cost;
(c) Factory Cost;
(d) Cost of Goods Sold; and
(e) Net profit

Pranita corporation

pranita corporation

cost sheet for the period 1st June 2018 to 30th June 2018

particulars	Amt (₹)	Amt (₹)
(a) opening stock of raw materials	60,000	
(+) purchases of raw material during the month of June 2018	4,80,000	
(-) closing stock of raw material	(50,000)	
Direct material consumed during the month		4,90,000
(b) Direct wages paid		2,90,000
(c) prime cost (a+b)		7,80,000
(d) Factory/works/production overheads		1,00,000
(e) Gross Factory/works cost (c+d)		8,30,000
(f) (+) opening WIP	12,000	
(-) closing WIP	(15,000)	(3,000)
(g) Net Factory cost (e+f)		8,27,000
(h) Administration overheads related to production		50,000
(i) cost of production (g+h)		8,77,000
(j) (+) opening stock of Finished goods	90,000	
(-) closing stock of Finished goods	(1,10,000)	(20,000)
(k) cost of production of goods sold (COGS) (i+j)		8,57,000
(l) selling & distribution overheads		25,000
(m) cost of sales for the month (k+l)		8,82,000
(n) Sales for the month		10,00,000
(o) operating profit (loss) for the month (n-m)		1,18,000

Question 24:

The following data relates to the manufacture of a standard product during the month of April, 2018:

Particulars	Amount (₹)
Raw materials	₹1,80,000
Direct wages	₹90,000
Machine hours worked (hours)	10,000
Machine hour rate (per hour)	₹8
Administration overheads	₹35,000
Selling overheads (per unit)	₹5
Units produced	4,000
Units sold	3,600
Selling price per unit	₹125

You are required to prepare a cost sheet in respect of the above showing:
(You can make suitable assumptions)
(i) Cost per unit
(ii) Profit for the month

① Machine hour rate = Factory OH cost per machine hour = Total Factory OH / Total machine hrs

₹ 8 = (Total Factory OH / 10,000 hrs) 475

∴ Total Factory OH cost for the month = ₹ 80,000

② opening stock of FG = 0

(+) No. of units produced during the month = 4,000

(−) no. of units sold during the month = 3,600

∴ closing stock of FG for the month = 400 units

③ cost sheet for the month of April 2018

particulars	Amt (₹)	Amt (₹)	Amt p.u (₹)
(a) Raw material consumed during the month		1,89000	45.00 (180,000/4000)
(b) Direct wages		90,000	22.50
(c) prime cost (a+b)		2,70,000	67.50
(d) Factory overheads (Refer ①)		80,000	20.00
(e) Factory cost for the month (c+d)		350,000	87.50
(f) Administration overheads assumed to be related to production		35,000	8.75
(g) cost of production of 4000 units produced (e+f)		3,85000	96.25
(h) (+) opening stock of Finished goods	0		
(−) closing stock of Finished goods (3,85000/4000units) × 400 units (Refer ② above)	(38,500) 38,500	(38,500)	(96.25) 96.25
(i) cost of production of goods sold (COGS) (g+h)		346,500	96.25
(j) selling overheads (₹5 × 3600 units)		18,000	5.00
(k) cost of sales of 3600 units sold during the month (i+j)		364,500	101.25
(l) Sales for the month (3600 units × ₹125)		450,000	125.00
(m) profit (loss) for the month (l − k)		85,500	23.75

Question 25: (Question on reverse working)

The books of Shobha Manufacturing Company present the following data for the month of April, 2019:

Direct labour cost ₹17,500 being 175% of works overheads.

Cost of goods sold excluding Administrative Expenses ₹56,000.

Inventory accounts showed the following opening and closing balances:

Particulars	April 1 (₹)	April 30 (₹)
Raw materials	8,000	10,600
Work-in-progress	10,500	14,500
Finished goods	17,600	19,000

Other data are:

Particulars	(₹)
Selling expenses	3,500
General and Administration expenses	2,500
Sales for the month	75,000

You are required to:

1. Compute the Value of materials purchased.
2. Prepare a Cost statement showing the various elements of cost and also the profit earned.

(I) Reverse working

(1) cost of production + op. stock of FG − closing stock of FG = COGS

∴ cost of production = COGS + closing stock of FG − opening stock of FG

cost of production = ₹56,000 + ₹19,000 − ₹17,600 = ₹57,400/

cost of production = 56,000 + 19,000 − 17,600 = 57,400

(2) Net Factory cost + Admini OH related to production = cost of production

∴ Net Factory cost = cost of prodn − Admini OH related to production

Net Factory wst = ₹57,400 − 0 = ₹57,400/

Net Factory = 57,400 − 0 = 57,400

(3) Gross Factory cost + op wip − cl wip = Net Factory cost

∴ Gross Factory cost = Net Factory cost + cl wip − op wip

∴ Gross Factory wst = ₹57,400 + ₹14,500 − ₹10,500

= ₹61,400/

Gross Factory cost = 57,900 + 14,500 − 10,500

= 61,400

④ prime cost + Factory overheads = Gross Factory cost

∴ prime cost = Gross Factory cost − Factory overheads

∴ prime cost = ₹61,900 − ₹10,000 = ₹51,900/-

It is given that Direct Labour cost = 175% × Factory overheads

₹17,500 = 175/100 × Factory overheads

∴ Factory overheads = 17500 × 100/175 = ₹10,000/-

⑤ Direct material consumed + Direct labour + Direct expenses = Prime cost

∴ Direct material consumed = prime cost − Direct labour − Direct expenses

Direct material consumed = ₹51,900 − ₹17,500 − 0 = ₹33,900

⑥ opening stock of raw material + purchases during the period − cl. stock of raw mate. = Direct mate consumed

∴ value of raw material purchased = Direct material consumed + cl. stock of raw material − op. stock of raw material

value of raw material purchased = ₹33,900 + ₹10,600 − ₹8,000

= ₹36,500/-

II cost sheet for the month of April 2019

Particulars	Amt (₹)	Amt (₹)
a) Direct material consumed		33,900
opening stock of raw material	8,000	
(+) purchases during the month	36,500	
(−) closing stock of raw material	(10,600)	
b) Direct Labour		17,500

(c)	Prime cost (a+b)		51,900
(d)	Factory overheads (Refer I (4) above)		10,000
(e)	Gross Factory cost (c+d)		61,400
(f)	(+) opening work in progress	10,500	
	(−) closing work in progress	(14,500)	4,000
(g)	Net Factory cost (e+f) (i.e. cost of production)		57,400
(h)	(+) opening stock of Finished goods	17,600	
	(−) closing stock of Finished goods	(19,000)	(1,400)
(i)	cost of production of goods sold (cogs)		56,000
(j)	selling expenses	3,500	6,000
(k)	General administration expenses	2,500	
(k)	cost of sales for the month (i+j)		62,000
(l)	Sales for the month		75,000
(m)	operating profit / (loss) for the month (l−k)		13,000

Question 26:

What is Cost Sheet?

1) cost sheet is a statement which shows detailed build up & break up of cost.

2) cost sheet provides detailed assembly of cost for a cost centre or cost unit.

3) cost sheet uses function wise classification of overheads

4) cost sheet is useful for
   i) presentation of cost information
   ii) Determination of selling price
   iii) Ascertainment of profitability
   iv) productwise & Location wise profitability
   v) preparation of Budget
   vi) cost control & cost reduction etc

Question 27: (Important) Important

The following figures are extracted from the Trial Balance of Avni Ltd on 30.09.2018-

Particulars	Dr. (₹)	Cr. (₹)
Inventories: Finished Stock	80,000	
Raw Material	1,40,000	
Work in Process	2,00,000	
Office Appliance (Dep) Dep	17,400	
Plant and Machinery (Dep) P	4,60,500	
Buildings adjustment (Adjustment)	2,00,000	
Sales		7,68,000
Sales return and Rebates	14,000	
Materials purchased	3,20,000	
Freight incurred on Material	16,000	
Purchase Returns		4,800
Direct Labour	1,60,000	
Indirect Labour	18,000	
Factory Supervision	10,000	
Repairs and Upkeep Factory	14,000	
Heat, light and power (Adjustment) Adjustment	65,000	
Rates and taxes (Adjustment) Adjustment	6,300	
Miscellaneous Factory Expenses	18,700	
Sales Commission	33,600	
Sales Travelling	11,000	
Sales Promotion	22,500	
Distribution Dept. Salaries & exps	18,000	
Office Salaries and Expenses	8,600	
Interest on Borrowed Funds	2,000	

Further details are available as follows-

Closing Inventories:	₹
Finished Goods	1,15,000
Raw Material	1,80,000
Work in process	1,92,000
Accrued expenses on 30.09.18:	
Direct Labour	8,000
Indirect Labour	1,200
Interest on Borrowed Funds	2,000
Depreciation to be provided on:	
Office Appliances	5%
Plant and machinery	10%
Buildings	4%

Distribute the following costs as-

Heat, Light and Power to factory, Office and Distribution in the ratio of 8:1:1.

Rates and Taxes two-third to factory and one-third to office.

Deprecation on building to Factory, Office and Selling in the ratio of 8:1:1.

With the help of the above information, you are required to prepare a cost sheet for the year ended 30th September, 2018 (All Office and Administration overheads given in the question are related to production, you can make suitable assumptions if required)

Avni Limited

Cost sheet for the year ended 30.09.2018

	particulars	Amt (₹)	Amt (₹)
(a)	Direct material consumed during the year		2,91,200
	opening stock of raw materials	1,40,000	
(+)	purchases during the year	3,20,000	
(+)	Freight incurred on material	16,000	
(−)	purchase returns	4,800	
(−)	closing stock of raw material	180,000	
(b)	Direct Labour - paid	1,60,000	1,68,000
	accrued	8,000	
(c)	prime cost (a+b)		4,59,200
(d)	Factory overheads		1,70,550
i	Depreciation on plant of machinery (4,60,500 × 10%)	46,050	
ii	Depreciation of Building 200,000 41 8	6,400	
iii	indirect labour paid	18,000	
iv	indirect labour accrued	1,200	
v	Factory supervision	10,000	
vi	Repair & upkeep of Factory	14,000	
vii	Heat Light power 65,000 8/10	52,000	
viii	Rates & Taxes (6300 × 2/3)	4,200	
ix	Misc Factoryexpenses	18,700	
(e)	Gross Factory cost (c+d)		6,29,750

(f)	(+) opening work in progress	2,00,000	8,000
	(-) closing work in progress	(1,92,000)	
(g)	Net factory cost (e+f)		6,37,750
(h)	Administration overheads related to production		18,870
	i) Depreciation on office appliances (17,400 × 5%)	870	
	ii) Depreciation on Building (2,00,000 × 41 × 1/10)	800	
	iii) Heat Light power (65,000 × 1/10)	6,500	
	iv) Rates & Taxes (6300 × 1/3)	2,100	
	v) office salaries & expenses	8,600	
(i)	cost of production (g+h)		6,56,620
(j)	(+) op. stock of Finished goods	80,000	
	(-) cl. stock of Finished goods	(1,15,000)	(35,000)
(k)	cost of prod of goods sold (i-j)		6,21,620
(l)	selling, distribution, marketing, General admini. OH		92,900
	i) Depreciation of Building (2,00,000 × 41 × 1/10)	800	
	ii) Heat Light power (65,000 × 1/10)	6,500	
	iii) sales commission	33,600	
	iv) sales traveling	11,000	
	v) sales promotion	22,500	
	vi) Distribution Dept salaries + expenses	18,000	
(m)	cost of sales (k+l)		7,14,020
(n)	sales less returns for the year (7,68,000 − 14,000)		7,54,000
(o)	operating profit / (Loss) for the year (n-m)		39,980

Note : Interest on borrowed funds are not included in cost sheet as it is an item purely financial in nature. (It can be shown separately for deci making)

Question 28:

What are the items not included in cost sheet?

Following items are not included in cost sheet, however these items can be shown separately as per management's convenience in decision making process :

1. opportunity cost or implicit cost
2. capital expenditure
3. Items purely financial in nature
   examples : interest on borrowed funds, goodwill written off, prelimi exp written off, Bad debts written off.
4. Appropriation of profit
   examples : dividend declared, income tax paid etc
5. Abnormal items of cost
   (Abnormal items of cost will be directly debited to costing P&L A/c)
6. penalties, Fines imposed by any Dept or Court etc

Question 29:

The following figures are extracted from the books of VR Ltd. for the next year ending 31.3.2018. Prepare a cost sheet showing clearly the cost per unit under the various elements, Direct and Indirect cost and also the profit / loss per unit. (Assume that all Office/Administration overheads are related to production)

Particulars		Amount (₹)
Direct Material		24,00,000
Direct Labour		5,00,000
Depreciation of Factory building		15,000
Office Expenses		40,000
Depreciation of Office building		8,000
Depreciation of staff cars		12,000
Insurance: Staff cars		1,500
Office Building		1,200
Factory Building		1,500
Delivery van maintenance & running expenses		10,000
Salaries including -		
Sales Managers	₹25,000	
Factory Chief Engineer	₹25,000	3,00,000
Finished goods warehouse expenses		20,000
Electricity (including ₹4,000 for administrative office)		40,000
Advertisement		20,000
Sundry Factory Expenses		3,40,000
Sales Promotion		5,000
Office Administration Expenses		50,000
Expenses for participation in Industrial Exhibition		10,000
Unit produced and sold (10,000 units)		42,00,000

VR Ltd

Cost Sheet for the year ended 31.03.2018

Particulars	Amt (₹)	Amt (₹)	Amt p.u. (₹)
(a) Direct material consumed during the year		2400000 2400,000	240.00
(b) Direct Labour cost		500000 500,000	50.00
(c) Prime cost (a+b)		2900000 2900,000	290.00
(d) Factory overheads		417500 4,17500	41.75
i) Depreciation on Factory building	15,000		
ii) Insurance of Factory building	1,500		
iii) Salary of Factory chief engineer	25,000		
iv) Electricity (40,000 - 4,000)	36,000		
v) Sundry factory expenses	340,000		
(e) Factory cost or works cost or work (c+d)		3317500 33,17500	331.75
(f) Administration overheads related to production		38700 3,86,700	38.67
i) office expenses	40,000		
ii) Depreciation on office Building	8,000		
iii) Depreciation of staff cars	12,000		
iv) Insurance of staff cars	1,500		
v) Insurance of office Building	1,200		
vi) salaries (300,000 - 25,000 - 25,000)	250,000		
vii) Finished goods warehouse expenses	20,000		
viii) Electricity	4,000		
ix) office administration expenses	50,000		
(g) cost of production of goods produced & sold (e+f)		3704200 37,04,200	370.42

(h) Selling, distribution, marketing, General administration overheads		70,000	7.00
i) Delivery van maintenance & running expenses	10,000		
ii) salary of sales Manager	25,000		
iii) Advertisement	20,000		
iv) Sales promotion	5,000		
v) Expenses for participation in industrial exhibition	10,000		
(i) cost of sales of 10,000 units produced & sold (g+h)		3779200	377.42
(j) Sales value of 10,000 units		4200000	420.00
(k) operating profit/(Loss) for the year (j-i)		425800	42.58

Note: in the absence of any specific information, we have included Finished goods warehouse expenses in Administration overheads related production.

Question 30:

What is Cost Accountancy?

Cost Accountancy is defined as :

"The application of costing, cost accounting principles, methods, techniques to the science, art and practice of cost control and ascertainment of profitability. It includes presentation of information derived there for the purpose of managerial decision making."

Question 31:

What is Management Accounting?

"Management accounting is application and use of cost accounting, Financial accounting, Financial management, taxation Laws, corporate Laws, Auditing etc in order to create, protect preserve, maintain, enhance, increase value for the stakeholders of a profit-making or Non profit making enterprise of public or private sector."

Management accounting provides valuable input for decision making process.

Question 32:

What is Difference between Cost Accounting & Management Accounting?

Cost accounting	Management accounting
① It is collection, classi & appropriate allocation of expenditure incurred in producing goods and/or rendering services	① It is appli & use of Financial accounting, cost accounting, FM, Auditing, Taxation etc in order to create, protect, maintain, increase the value for the stake holders of a profit making or non profit making enterprise of public or private sector
② It deals with Quantitative aspect only	② It deals with quantitative as well as qualitative aspect
③ Main purpose is ascertainment of cost	③ Mainly provides input for managerial decision making
④ It uses both past & present figures	④ It is focused mainly on future or projection of figures for future.
⑤ cost accounting is developed with industrial revolution.	⑤ It has been developed out of needs of modern business world
⑥ Traditional	⑥ Modern.
⑦ Narrow scope	⑦ wider scope

Question 33:

What are the objectives of Cost Accounting?

There are 5 main objectives of cost-accounting

1. cost ascertainment
2. cost estimation
3. cost control
4. cost reduction
5. Assisting management is decision making

Question 34:

What is Difference between Cost Control & Cost Reduction?

cost control	cost reduction
① Temporary	① permanent or unending
② cost control program will set the standard/target cost	② cost reduction program will challenge the standard.
③ cost control program aims at maintaining the cost in accordance with established standard	③ cost reduction is concerned with reducing the cost continuously
④ cost control program has visible end. (It comes to an end when target/standard cost is achieved)	④ cost reduction program has no visible end as it is based on belief that there continuous unending scope for further reduction in cost.

Question 35:

What are the types of Cost on the basis of Time Period?

① Historical cost : costs relating to past time period, costs which are already incurred are known as Historical cost.

Historical cost can also be called as sunk cost, costs is irrelevant for decision making.

② Current cost : These are the costs relating to present time-period.

③ Budgeted cost : These are the costs related to future time period. cost which is computed in advance on the basis of factors affecting cost.

Question 36:

What are the types of Cost on the basis of Decision Making?

① Relevant cost : The costs which are important for decision making or costs which should taken into account at the time of decision making are known as relevant costs.

② Ir-relevant cost : The costs which are not important for decision making or can be ignored at the time of decision making are known as Ir-relevant costs.

Question 37:

What are the types of Cost on the basis of Controllability?

There are 2 types of cost on the basis of controllability:

i) controllable cost : cost which can influenced & controlled by managerial decision making or managerial actions is known as controllable cost

It is also known as avoidable or Discretionary cost.

ii) non-controllable cost : these are the costs which can not be influenced or controlled by managerial actions.

Non controllable cost is also known as unavoidable cost

OR Non-discretionary cost.

Question 38:

What are the types of Cost on the basis of Normality?

There are 2 types of costs on the basis of Normality

① Normal cost : The cost which is expected to be incurred under normal conditions, routine course of operations is known as Normal cost.

② Abnormal cost : costs over and above normal costs, which are not expected to be incurred under normal operating conditions is known as abnormal cost.

examples: Fire, repairs due to major break down or accident etc

Question 39:

What are the types of Cost on the basis of Association?

There are 2 types of cost on the basis of association of cost

① period cost : The are the costs which are not assigned to the products but charged as an expenditure against revenue of that period in which they are incurred. These costs vary as per period of time & not as per volume of production. Thus, These costs are Fixed costs.
example: Factory insurance, Factory rent, Salary to office staff etc.

② Product cost : These are the costs which change as per volume of production & not with the period of time. These costs are generally variable costs.
example: Raw material consumed, Direct labour cost etc.

Question 40:

What is the meaning of Direct Cost & Indirect Cost?

1. Direct cost : costs which are directly related to / identified with / attributable to a cost object OR cost unit is known as direct cost.
   It is a specific cost.

2. Indirect cost : costs which are not directly identified with a cost object or cost unit, such costs are apportioned over diff cost centres by using appropriate basis are known as indirect costs.
   It is general/common cost

There are 6 steps in distribution of overheads
① collection ② classification ③ Allocation ④ Apportionment (primary distri.)
⑤ Re-apportionment (secondary distri.) ⑥ Absorption

Question 41:

What is Cost Centre? Explain the Difference between Production Cost Centre & Service Cost Centre.

1. It is defined as location, person or items of equipments or Group of machines for which cost may be ascertained & used for the purpose of cost control.
   cost centres are of 2 types:
   i) personal cost centre: consisting of a person or group of persons.
   ii) Impersonal cost centre: consisting of location, items of equipments or group of machines.

2. For manufacturing organisations generally cost centres are divided into i) production cost centres
   ii) service cost centres

production cost centre	service cost centre
① production cost centres transforms raw material into finished products	① These are the ancillary units facilitating production cost centres.
② It has the saleable output	② It has no saleable output
③ costs of production cost centres can be divided into Direct costs & indirect cost	③ All costs of service cost centres are indirect / overhead cost
④ examples: Machine shop, cutting Dept, welding Dept, Moulding Dept etc	④ examples: steam Dept, Generator room, purchase Dept, cafeteria etc.

Question 42:

What are the types of Responsibility Centres?

There are 4 types of responsibility centres:

cost centres	Revenue centres	profit centres	Investment centres
It is a centre for which standard cost is calculated & used for cost control	centre devoted to generating the revenue	a centre whose performance is measured in terms of Revenue - cost = Profit	a centre responsible for generating adequate ROI (return on investment)
primary responsibility cost control & reduction	Generating sales revenue	Platinting profit earning	Earning good ROI
performance evaluation standard cost compared with actual cost	Budgeted & Actual Revenue	Budgeted profit & Actual profit	Budgeted ROI & Actual ROI

Question 43:

What is Scope of Cost Accounting?

Scope of cost accounting consist of following functions:

1. costing
2. cost ascertainment / cost estimation
3. cost analysis
4. cost comparisons
5. cost reports
6. Statutory compliances
7. cost control & cost reduction

Question 44:

What are the Essentials of Good Costing System?

Following are the essentials of good costing system

1. It must be economical, effective
2. It must be simple to understand & easy to operate
3. It should involve minimum clerical work
4. It should fulfill requirement of management
5. If new system is introduced then introduction should be with minimum modification in existing system
6. It should be flexible (To take care of any expansion / modernization)

Question 45:

What is Role & Functions of Cost & Management Accounting?

The role of cost & management accounting includes

i) providing relevant information to the management for decision making

ii) Assisting management for planning, staffing, co-ordinating, controlling etc

iii) Helping the management for optimum use of all resources.

iv) providing MIS to management.

The Functions of cost & management accounting including

i) collection & accumulation of cost

ii) Appropriate Apportionment, Re-apportionment, absorption of cost

iii) cost control & cost reduction etc

Question 46:

Write down the difference between Cost Accounting & ~~Management~~ Financial Accounting

(Home-work)

Specimen Format of Cost Sheet for a Manufacturing entity

	Particulars	Total Cost (₹)
1.	Direct Materials Consumed:	
	Opening Stock of Raw Material	XXX
	Add: Additions/ Purchases	XXX
	Less: Closing stock of Raw Material	XXX
		XXX
2.	Direct Employee (labour) cost	XXX
3.	Direct Expenses	XXX
4.	**Prime Cost (1+2+3)**	**XXX**
5.	Add: Works/ Factory Overheads	XXX
6.	**Gross Works Cost (4+5)**	**XXX**
7.	Add: Opening Work in Process	XXX
8.	Less: Closing Work in Process	(xxx)
9.	**Works/ Factory Cost (6+7-8)**	**XXX**
10.	Add: Quality Control Cost	XXX
11.	Add: Research and Development Cost	XXX
12.	Add: Administrative Overheads (relating to production activity)	XXX
13.	Less: Credit for Recoveries/Scrap/By-Products/misc. income	(xxx)
14.	Add: Packing cost (primary)	XXX
15.	**Cost of Production (9+10+11+12-13+14)**	**XXX**
16.	Add: Opening stock of finished goods	XXX
17.	Less: Closing stock of finished goods	(xxx)
18.	**Cost of Goods Sold (15+16-17)**	**XXX**
19.	Add: Administrative Overheads (General)	XXX
20.	Add: Marketing Overheads:	
	Selling Overheads	XXX
	Distribution Overheads	XXX
21.	**Cost of Sales (18+19+20)**	**XXX**

Question 47:

Arnav Inspat Udyog Ltd. has the following expenditures for the year ended 31st March, 2021:

Sl. No.		Amount (₹)	Amount (₹)
(i)	Raw materials purchased		10,00,00,000
(ii)	GST paid on the above purchases @18% (eligible for input tax credit)		1,80,00,000
(iii)	Freight inwards		11,20,600
(iv)	Wages paid to Factory workers		29,20,000
(v)	Contribution made towards employees' PF & ESIS		3,60,000
(vi)	Production bonus paid to factory workers		2,90,000
(vii)	Royalty paid for production		1,72,600
(viii)	Amount paid for Power & Fuel		4,62,000
(ix)	Amount paid for purchase of moulds and patterns (life is equivalent to two years production)		8,96,000
(x)	Job charges paid to Job workers		8,12,000
(xi)	Stores and Spares consumed		1,12,000
(xii)	Depreciation on:		
	Factory building	84,000	
	Office building	56,000	
	Plant & Machinery	1,26,000	
	Delivery vehicles	86,000	3,52,000
(xiii)	Salary paid to Supervisors		1,26,000
(xiv)	Repairs & Maintenance paid for:		
	Plant & Machinery	48,000	
	Sales office building	18,000	
	Vehicles used by directors	19,600	85,600
(xv)	Insurance Premium paid for:		
	Plant & Machinery	31,200	
	Factory building	18,100	
	Stock of raw materials & WIP	36,000	85,300
(xvi)	Expenses paid for Quality control check activities		19,600
(xvii)	Salary paid to Quality control staffs		96,200
(xviii)	Research & Development cost paid for improvement in production process		18,200

(xix)	Expenses paid for Pollution control and Engineering & Maintenance		26,600
(xx)	Expenses paid for Administration of factory work		1,18,600
(xxi)	Salary paid to functional mangers:		
	Production control	9,60,000	
	Finance & Accounts	9,18,000	
	Sales & Marketing	10,12,000	28,90,000
(xxii)	Salary paid to General Manager		12,56,000
(xxiii)	Packing cost paid for:		
	Primary packing necessary to maintain quality	96,000	
	For Re-distribution of Finished goods	1,12,000	2,08,000
(xxiv)	Wages of employees engaged in Distribution of goods		7,20,000
(xxv)	Fee paid to Auditors		1,80,000
(xxvi)	Fee paid to Legal advisors		1,20,000
(xxvii)	Fee paid to Independent directors		2,20,000
(xxviii)	Performance bonus paid to Sales staffs		1,80,000
(xxix)	Value of stock as on 1st April, 2020:		
	Raw materials	18,00,000	
	Work-in-process	9,20,000	
	Finished goods	11,00,000	38,20,000
(xxx)	Value of stock as on 31st March, 2021:		
	Raw materials	9,60,000	
	Work-in-process	8,70,000	
	Finished goods	18,00,000	36,30,000

Amount realized by selling of scrap and waste generated during manufacturing process - ₹86,000/-

From the above data you are required to PREPARE Statement of cost for Arnav Ispat Udyog Ltd. for the year ended 31st March, 2021, showing

(i) Prime cost,

(ii) Factory cost,

(iii) Cost of Production,

(iv) Cost of goods sold and

(v) Cost of sales.

Arnav Ispat udyog Limited

Cost sheet for the year ended 31.03.2021

particulars	Amt (₹)	Amt (₹)
(a) Raw material consumed during the year		10,19,60,600
opening stock of raw materials	18,00,000	
(+) Raw material purchased	10,0000,000	
(+) Freight inwards	11,20,600	
(−) closing stock of raw materials	(9,60,000)	
(b) Direct Labour		35,70,000
i) wages paid to Factory workers	29,20,000	
ii) contribution made towards employee's PF & ESIS	3,60,000	
iii) production Bonus paid to factory workers	2,90,000	
(c) Direct Expenses/chargeable expenses		18,94,600
i) Royalty paid for production	1,72,600	
ii) Amount paid for power & Fuel	4,62,000	
iii) Amortised cost moulds & patterns (8196,000/2)	4,48,000	
iv) Job charges paid to Job workers	8,12,000	
(d) PRIME COST (a+b+c)		10,74,25,200
(e) Factory overheads		6,07,900
i) stores & spare parts consumed	1,12,000	
ii) Depreciation on Factory Building	84,000	
iii) Depreciation on plant & Machinery	26,000	

iv) salary paid to supervisors	1,26,000	
v) Repairs & maintenance of Plant of machinery	48,000	
vi) Insurance premium paid on plant & machinery	31,200	
vii) Insurance premium paid for Factory Building	18,100	
viii) Insurance premium paid for stock of raw material & WIP	36,000	
ix) Expenses paid for pollution control & engineering & maintenance	26,600	
f) Gross Factory cost (d+e)		10,80,33,100
g) Add: opening wip	9,20,000	
Less: closing wip	(8,70,000)	50,000
h) Net Factory cost (f+g)		10,80,83,100
i) Admini OH related to poudh, Quality control, R&D cost including primary packing cost		12,22,600
i) Expenses paid for quality control check activities	19,600	
ii) salary paid to Quality control staff	96,200	
iii) R&D cost for improvement in production process	18,200	
iv) Expenses paid for admini. of Factory work	1,18,600	
v) salary paid to production control manager	9,60,000	

vi) primary packing cost	96,000	
vii) Less: sale of scrap (credit for recovery)	(86,000)	
(j) cost of pro'n (+)		10,93,05,700
(k) (+) opening stock of FG	11,00,000	
(–) closing stock of FG	(18,00,000)	(7,00,000)
(l) cost of production of goods sold (COGS)		10,86,05,700
(m) selling, Distribution, marketing, General administration OH		48,97,600
i) Dep on office Building	56,000	
ii) Dep on Delivery vehicles	86,000	
iii) Repairs & maintenance of sales office Building	18,000	
iv) vehicle used by Directors (Repairs & maintenance)	19,600	
v) salary paid to Finance & Accounts Manager	9,18,000	
vi) salary paid to sales & Marketing Manager	10,12,000	
vii) salary paid to General Manager	12,56,000	
viii) Fees paid to Auditors	1,80,000	
ix) packaging for Redistri. of finished goods	1,12,000	
x) Fees paid to Legal advisors	1,20,000	
xi) Fees paid to Ind Directors	2,20,000	
xii) performance Bonus paid to sales staff	1,80,000	
xiii) wages of employees engaged in distri. of goods	7,20,000	
(n) cost of sales (l+m)		11,35,03,300

Note: GST paid on raw materials purchases is not included in material cost as input tax credit is available.

Question 48:

Segregate the cost by High point and Low Point Method.

Particulars	Sales value (₹)	Total cost (₹)
At the Highest volume	1,40,000	72,000
At the Lowest volume	80,000	60,000
Difference	**60,000**	**12,000**

① variable cost ratio = (Difference in Total cost / Difference in Total sales) × 100

= (₹12,000 / ₹60,000) = 0.20

= 20% of sales

② using data of Lowest volume

Fixed cost for the period = Total cost − variable cost

= Total cost − (Total sales × variable cost ratio)

= ₹60,000 − (₹80,000 × 0.20) = ₹60,000 − ₹16,000

= ₹44,000/-

44,000

Question 49:

Segregate the cost by Simultaneous equations Method.

Particulars	Level of activity	
Capacity %	60%	80%
Volume (Labour hours) or 'x'	150	200
Semi-variable expenses (maintenance of plant) or 'y' (Rs.)	1,200	1,275

⟹ ① Let ₹F be Fixed maintenance cost for the given period & ₹a be variable maintenance cost per labour hour,

As per given data,

1200 = F + 150a ..... ①

1275 = F + 200a ..... ②

75 = 50a

a = ₹1.50 = variable maintenance cost per labour hour

Contact no.- 7774060125/126

Let's use EM

Let's use EM ①

$1200 = F + (150 \times 1.50)$

$F = ₹\,975/-$

i. Fixed maintenance cost for the period = ₹ 9751

Fixed maintenance cost for the period 9751

Fixed maintenance cost for the period will remain same

i.e. ₹ 975 up to 100% capacity of 250 labour hrs