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B.Com Honours | Semester IV | Calicut University

APPLIED COSTING AND CONTROL

Course Code: COM4CJ204 • Module 1 Notes

Module I: Overview of Cost Accounting & Cost Sheet

Cost Accounting provides quantitative internal financial data to ascertain unit costs, control manufacturing expenditure, and assist management in strategic product pricing.

Unit 1: Cost Accounting Basic Concepts, Scope, & Objectives

1. Definition: Formal accounting process of recording, classifying, summarizing, and allocating expenditure for product cost determination and operational cost control.
2. Objectives: Cost ascertainment, selling price determination, cost reduction, inventory valuation, and profit planning.

Unit 2: Elements of Cost & Cost Classification

1. Primary Elements: Material (Direct & Indirect), Labour (Direct & Indirect), and Expenses (Direct & Indirect).
2. Overheads Division: Factory Overheads, Administration Overheads, and Selling & Distribution Overheads.

Unit 3: Cost Units, Cost Objects, & Responsibility Centers

Cost Unit: Quantitative unit of product/service (e.g., Per Ton, Per Meter, Per Passenger-km).
Responsibility Centers: Cost Centre (Production/Service), Profit Centre (Revenue & Cost), and Investment Centre (Capital Return).

Unit 4: Cost Sheet Structure & Sequential Steps

Sequential Cost Sheet Flow:

> **Direct Materials + Direct Labour + Direct Expenses = Prime Cost**
> **Prime Cost + Factory Overheads + WIP Adjustment = Works / Factory Cost**
> **Works Cost + Admin Overheads = Cost of Production**
> **Cost of Production + Finished Goods Adjustment = Cost of Goods Sold (COGS)**
> **COGS + Selling & Distribution Overheads = Total Cost of Sales**

Practical Problem 1 (Comprehensive Solved Cost Sheet Statement): A manufacturing firm provides cost data for producing 10,000 units: Direct Materials = Rs. 2,00,000; Direct Wages = Rs. 1,20,000; Direct Expenses = Rs. 30,000; Factory Overheads (50% of Direct Wages) = Rs. 60,000; Opening WIP = Rs. 15,00, Closing WIP = Rs. 25,000; Administration Overheads (20% of Works Cost); Selling Overheads = Rs. 5 per unit sold (9,000 units sold @ Rs. 75 per unit). Prepare a detailed Cost Sheet showing (a) Prime Cost, (b) Works Cost, (c) Cost of Production, (d) Cost of Sales, and (e) Net Profit.

Comprehensive Cost Sheet Statement (10,000 Units Produced / 9,000 Units Sold):

Cost Component Particulars	Total Amount (Rs.)	Cost Per Unit (Rs.)
Direct Raw Materials Consumed	2,00,000	20.00
Direct Labour / Wages	1,20,000	12.00
Direct Expenses	30,000	3.00
PRIME COST (A)	**3,50,000**	**35.00**
Add: Factory Overheads	60,000	6.00
Add: Opening Work-in-Progress (WIP) less Closing WIP (15,000 - 25,000)	(10,000)	(1.00)
WORKS / FACTORY COST (B)	**4,00,000**	**40.00**
Add: Administration Overheads (20% of Works Cost)	80,000	8.00
COST OF PRODUCTION (C)	**4,80,000**	**48.00**
Less: Closing Stock of Finished Goods (1,000 units @ Rs. 48)	(48,000)	-
COST OF GOODS SOLD (COGS)	**4,32,000**	**48.00**
Add: Selling & Distribution Overheads (9,000 units @ Rs. 5)	45,000	5.00
TOTAL COST OF SALES (D)	**4,77,000**	**53.00**
NET PROFIT (Sales 6,75,000 - Cost 4,77,000)	**1,98,000**	**22.00**