

COST SHEET

One of the objectives of cost accounting system is ascertainment of cost for a cost object. The cost objects may be a product, service or any cost centre. **Ascertainment of cost includes elementwise collection of costs, accumulation of the costs so collected for a certain volume or period and then arrange all these accumulated costs into a sheet to calculate total cost for the cost object.** In this chapter, a product or a service will be the cost object for cost calculation and cost ascertainment. **A Cost Sheet or Cost Statement is “a document which provides a detailed cost information.”** In a typical 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.

1. 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.

2. Cost Heads in a Cost Sheet

The costs as classified on the basis of functions are grouped into the following cost heads in a cost sheet:

- (i) Prime Cost
- (ii) Cost of Production
- (iii) Cost of Goods Sold
- (iv) Cost of Sales

3. Prime Cost

Prime cost represents the total of direct materials costs, direct employee (labour) costs and direct expenses. The total of cost for each element has to be calculated separately.

| | |
|----------------------|-----------------|
| Direct Material Cost | Rs. Xxx |
| Direct labour Cost | Rs. Xxx |
| Direct Expenses | Rs. Xxx |
| Prime Cost | Rs. XXXX |

3.1 Direct Material Cost: It is the cost of direct material consumed. The cost of direct material consumed is calculated as follows:

| | |
|---------------------------------|-----------------|
| Opening Stock of Material | Rs. Xxx |
| Add: Purchases/Additions | Rs. Xxx |
| Less: Closing Stock of Material | Rs. Xxx |
| Direct Material Consumed | Rs. Xxxx |

3.2 Direct Employee (labour) Cost: It is the total of payment made to the employees who are engaged in the production of goods and provision of services. Employee cost is also known as labour cost; it includes the following:

- a) Wages and salary
- b) Allowances and incentives;
- c) Payment for overtimes;
- d) Employer's contribution to Provident fund and other welfare funds;
- e) Other benefits (leave with pay, free or subsidised food, leave travel concession etc.)

3.3 Direct Expenses: Expenses other than direct material cost and direct employee cost, which are incurred to manufacture a product or for provision of service and can be directly traced in an economically feasible manner to a cost object. The following costs are examples for direct expenses:

- a) Royalty paid/ payable for production or provision of service
- b) Hire charges paid for hiring specific equipment;
- c) Cost for product/ service specific design or drawing;
- d) Cost of product/ service specific software;
- e) Other expenses which are directly related with the production of goods or provision of service.

4. Cost of Production : In a conventional cost sheet, this item of cost can be seen. **It is the total of prime cost and factory related costs and overheads.**

| | |
|---|-------------|
| Prime Cost | Xxx |
| Add : Factory Overheads | Xxx |
| Gross Works Costs | Xxxx |
| Add: Opening stock of Work-in-process | Xxx |
| Less: Closing stock of Work-in-process | (xxx) |
| Factory or Works Costs | Xxxx |
| Add: Quality Control Cost | Xxx |
| Add: Research & Development cost (Process related) | Xxx |
| Add: Administrative Overheads related with production | Xxx |
| Less: Credit for recoveries (miscellaneous income) | (xxx) |
| Add: Packing Cost (Primary packing) | Xxx |
| Cost of Production | Xxxx |

4.1 Factory Overheads: It is also known as **works/ production/ manufacturing** overheads. It includes the following indirect costs:

- a) Consumable stores and spares
- b) Depreciation of plant and machinery, factory building etc.
- c) Lease rent of production assets
- d) Repair and maintenance of plant and machinery, factory building etc.
- e) Indirect employees cost related with production activities
- f) Drawing and Designing department cost.
- g) Insurance of plant and machinery, factory building, stock of raw material & WIP etc.
- h) Amortized cost of jigs, fixtures, tooling etc.
- i) Service department cost such as Tool Room, Engineering & Maintenance, Pollution Control etc.

4.2 Stock of Work-in-process: The cost of opening and closing stock of work-in-process is adjusted to arrive at factory/ works cost. The WIP stock is valued on the basis of percentage of completion in respect of each element of cost. Students may refer the 'Chapter- Process & Operation Costing' to know the WIP valuation methods.

4.3 Quality Control Cost: This is the cost of resources consumed towards quality control procedures.

4.4 Research & Development cost: It includes only those research and development related cost which is incurred for the improvement of process, system, product or services.

4.5 Administrative Overheads: It includes only those administration overheads which are related to production. The general administration overhead is not included in production cost.

4.6 Credit for recoveries: The realised or realisable value of scrap or waste is deducted as it reduces the cost of production.

4.7 Packing Cost (primary): Packing material which is essential to hold and preserve the product for its use by the customer.

5. Cost of Goods Sold: It is the cost of production for goods sold. It is calculated after adjusting the values of opening and closing stocks of finished goods. It can be calculated as below:

| | |
|--|--------------|
| Cost of Production | Xxx |
| Add: Cost of Opening Stock of finished goods | xxx |
| Less: Cost of Closing Stock of finished goods | (xxx) |
| Cost of Goods Sold | xxxx |

6. Cost of Sales: It is the total cost of a product incurred to make the product available to the customer or consumer. It includes Cost of goods sold, administration and marketing expenses. It is calculated as below:

| | |
|--------------------------------------|-------------|
| Cost of Goods Sold | Xxx |
| Add: Administrative Overheads | Xxx |
| Add: Selling Overheads | Xxx |
| Add: Packing Cost | Xxx |
| Add: Distribution Cost | Xxx |
| Cost of Sales | Xxxx |

6.1 Administrative Overheads: It is the cost related with general administration of the entity. It includes the followings:

- (a) Depreciation and maintenance of, building, furniture etc. of corporate or general management.
- (b) Salary of administrative employees, accountants, directors, secretaries etc.
- (c) Rent, insurance, lighting, office expenses etc.

6.2 Selling Overheads: It is the cost related with sale of products or services. It includes the following costs:

- a) Salary and wages related with sales department and employees directly related with selling of goods.
- (b) Rent, depreciation, maintenance and other cost related with sales department.
- (c) Cost of advertisement, maintenance of website for online sales, market research etc.

6.3 Packing cost (secondary): Packing material that enables to store, transport, inform the customer, promote and otherwise make the product marketable.

6.4 Distribution Overheads: It includes the cost related with making the goods available to the customers. The costs are

- (a) Salary and wages of employees engaged in distribution of goods.
- (b) Transportation and insurance costs related with distribution.
- (c) Depreciation, hire charges, maintenance and other operating costs related with distribution vehicles etc.