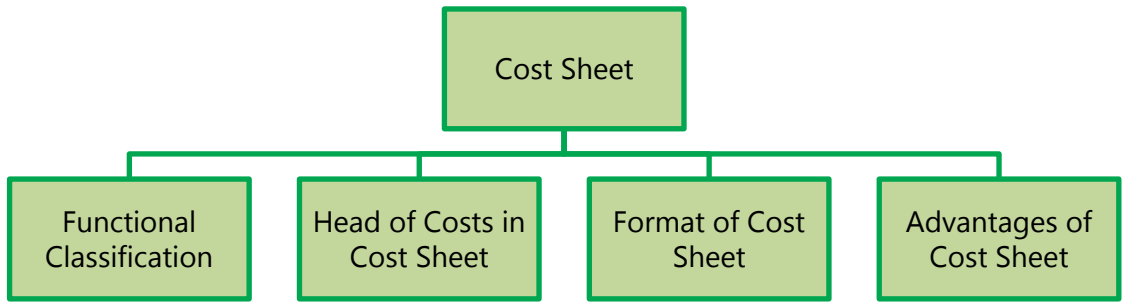
CHAPTER 6

COST SHEET

LEARNING OUTCOMES

- Classify and ascertain cost on the basis of function.
- Prepare cost sheet/statement for production of goods and providing of services.

CHAPTER OVERVIEW



6.1 INTRODUCTION

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.

6.2 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.

6.3 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

6.3.1 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	xxx
Direct Employees (labour) Cost	Xxx
Direct Expenses	Xxx
Prime Cost:	Xxxx

(i) 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	Xxx
Add: Additions/ Purchases	Xxx
Less: Closing stock of Material	(xxx)
Direct materials consumed	Xxxx

The valuation of materials purchased and issued for production shall be done as per methods discussed in the 'Chapter- 2 Material Cost'.

(ii) 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.)

(iii) 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.

6.3.2 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**

(i) 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.

(ii) 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.

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

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

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

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

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

6.3.3 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**

6.3.4 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 (General)	xxx
Add: Selling Overheads	xxx
Add: Packing Cost (secondary)	xxx
Add: Distribution Overheads	xxx
Cost of Sales	**xxxx**

(i) 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.

(ii) 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.

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

(iv) 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.

6.4 COST SHEET/STATEMENT

6.4.1 Presentation of cost information

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.	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**	

6.4.2 Advantages of Cost sheet or Cost Statements

The main advantages of a Cost Sheet are as follows:

(i) It provides the total cost figure as well as cost per unit of production.

(ii) It helps in cost comparison.

(iii) It facilitates the preparation of cost estimates required for submitting tenders.

(iv) It provides sufficient help in arriving at the figure of selling price.

(v) It facilitates cost control by disclosing operational efficiency.

ILLUSTRATION 1

The following data relates to the manufacture of a standard product during the month of April, 20X8:

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:

(i) Cost per unit

(ii) Profit for the month

SOLUTION

(i) Cost Sheet **Output: 4,000 units**

	Total Cost (₹)	Cost per (unit) (₹)
Raw materials	1,80,000	45.00
Direct wages	90,000	22.50
Prime cost	**2,70,000**	**67.50**
Add: Factory overheads (10,000 hrs × ₹ 8 per hour)	80,000	20.00
Cost of Production	**3,50,000**	**87.50**
Less: Closing Stock of finished goods (4,000 – 3,600 units)	(35,000)	--
Cost of Goods Sold	**3,15,000**	**87.50**
Add: Administration overheads	35,000	8.75
Add: Selling Overheads (3,600 units × ₹ 5 unit)	18,000	5.00
Cost of sales (total Cost)	**3,68,000**	**101.25**

(ii) Statement of Profit

	Total Cost (₹)
Sales revenue (3,600 units @ ₹ 125)	4,50,000
Less: Cost of sales	3,68,000
Profit	**82,000**

ILLUSTRATION 2

The following information has been obtained from the records of ABC Corporation for the period from June 1 to June 30, 20X8.

	On June 1, 20X8 (₹)	On June 30, 20X8 (₹)
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' 20X8		*4,80,000*
Wages paid		*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.

SOLUTION

Statement of Cost & Profit

(for the month of June 20X8)

	Amount (₹)
Opening stock of raw materials	60,000
Add: Purchase of raw materials during June' 20X8	4,80,000
Less: Closing stock of raw materials	(50,000)
(a) Raw materials consumed	**4,90,000**

Add: Direct wages	2,40,000
(b) Prime cost	**7,30,000**
Add: Factory overheads	1,00,000
Works cost	8,30,000
Add: Opening work-in-process	12,000
Less: Closing work-in-process	(15,000)
(c) Factory cost	**8,27,000**
Add: Administration overheads	50,000
Cost of production	8,77,000
Add: Opening stock of finished goods	90,000
Less: Closing stock of finished goods	(1,10,000)
(d) Cost of goods sold	**8,57,000**
Add: Selling & distribution overheads	25,000
Cost of sales	8,82,000
(e) Net Profit	**1,18,000**
Sales	10,00,000

SUMMARY

- **Cost Sheet:** 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.
- **Prime Cost:** Prime cost represents the total of direct materials costs, direct employee (labour) costs and direct expenses.
- **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.
- **Cost of Sales**: It is the total cost of a product incurred to make the product available to the customer or consumer.

TEST YOUR KNOWLEDGE

MCQs based 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 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.

Theoretical Questions

1. DESCRIBE how costs are classified on the basis of function?
2. EXPLAIN the treatment of administration overheads.
3. STATE the advantages of a cost sheet

Practical Questions

1. The books of Adarsh Manufacturing Company present the following data for the month of April, 20X9:

   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:

	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:

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

   You are required to:

   (i) COMPUTE the value of materials purchased.

   (ii) PREPARE a cost statement showing the various elements of cost and also the profit earned.

2. A Ltd. Co. has capacity to produce 1,00,000 units of a product every month. Its works cost at varying levels of production is as under:

Level	Works cost per unit (₹)
10%	400
20%	390

30%	380
40%	370
50%	360
60%	350
70%	340
80%	330
90%	320
100%	310

Its fixed administration expenses amount to ₹ 1,50,000 and fixed marketing expenses amount to ₹ 2,50,000 per month respectively. The variable distribution cost amounts to ₹ 30 per unit.

It can sell 100% of its output at ₹ 500 per unit provided it incurs the following further expenditure:

(a) it gives gift items costing ₹ 30 per unit of sale;

(b) it has lucky draws every month giving the first prize of ₹ 50,000; 2nd prize of ₹ 25,000, 3rd prize of ₹ 10,000 and three consolation prizes of ₹ 5,000 each to customers buying the product.

(c) it spends ₹ 1,00,000 on refreshments served every month to its customers;

(d) it sponsors a television programme every week at a cost of ₹ 20,00,000 per month.

It can market 30% of its output at ₹ 550 per unit without incurring any of the expenses referred to in (a) to (d) above.

PREPARE a cost sheet for the month showing total cost and profit at 30% and 100% capacity level.

ANSWERS/ SOLUTIONS

Answers to the MCQs based Questions

1. (a) **2.** (a) **3.** (b) **4.** (b) **5.** (a) **6.** (b)

7. (a) **8.** (a) **9.** (a) **10.** (c)

Answers to the Theoretical Questions

1. Please refer paragraph 6.1
2. Please refer paragraph 6.3
3. Please refer paragraph 6.4

Answers to the Practical Questions

1. (i) Computation of the value of materials purchased

	(₹)
Cost of goods sold	**56,000**
Add: Closing stock of finished goods	19,000
Less: Opening stock of finished goods	(17,600)
Cost of goods manufactured	**57,400**
Add: Closing stock of work-in-progress	14,500
Less: Opening stock of work-in-progress	(10,500)
Works cost	**61,400**
Less: Factory overheads: [$\frac{100}{175}$ of Direct labour cost]	(10,000)
Prime cost	**51,400**
Less: Direct labour	(17,500)
Raw material consumed	**33,900**
Add: Closing stock of raw materials	10,600
Raw materials available	44,500
Less: Opening stock of raw materials	(8,000)
Value of materials purchased	**36,500**

(ii) Cost statement

	(₹)
Raw material consumed [Refer to statement (i) above]	33,900
Add: Direct labour cost	17,500
Prime cost	**51,400**
Add: Factory overheads	10,000
Works cost	**61,400**

Add: Opening work-in-progress	10,500
Less: Closing work-in-progress	(14,500)
Cost of goods manufactured	**57,400**
Add: Opening stock of finished goods	17,600
Less: Closing stock of finished goods	(19,000)
Cost of goods sold	**56,000**
Add: General and administration expenses	2,500
Add: Selling expenses	3,500
Cost of sales	**62,000**
Profit (Balance figure ₹ 75,000 – ₹ 62,000)	13,000
Sales	**75,000**

2. (a) Cost Sheet (For the month)

Level of Capacity	30%		100%	
	30,000 units		1,00,000 units	
	Per unit (₹)	Total (₹)	Per unit (₹)	Total (₹)
Works Cost	**380.00**	**1,14,00,000**	**310.00**	**3,10,00,000**
Add: Fixed administration expenses	5.00	1,50,000	1.50	1,50,000
Add:Fixedmarketing expenses	8.33	2,50,000	2.50	2,50,000
Add: Variable distribution cost	30.00	9,00,000	30.00	30,00,000
Add: Special Costs:				
- Gift items costs	-	-	30.00	30,00,000
- Customers' prizes*	-	-	1.00	1,00,000
- Refreshments	-	-	1.00	1,00,000
- Television programme sponsorship cost	-	-	20.00	20,00,000

Cost of sales	**423.33**	**1,27,00,000**	**396.00**	**3,96,00,000**
Profit (Balancing figure)	126.67	38,00,000	104.00	1,04,00,000
Sales revenue	**550.00**	**1,65,00,000**	**500.00**	**5,00,00,000**

*Customers' prize cost:

	Amount (₹)
1st Prize	50,000
2nd Prize	25,000
3rd Prize	10,000
Consolation Prizes (3 × ₹5,000)	15,000
Total	**1,00,000**