

31/07/2024

- Accounts & Finance go hand-in-hand.
- Finance means financial management.
Decision making steps
- Problem situation → which calls for our attention.
- Then, we proceed to cause analysis.
- Developing all possible alternative solutions to solve it.
- Evaluating all the alternatives, as all may not be suitable (i.e. do not yield same results)
- Selection of best possible alternative
- Implementation & feedback, for future inference.

Quality of management depends on quality of decisions taken.

Quality of decision depends on information backup (quality, ^{quantity} & timeliness of information).

Continuing or removing a product from service is dependent on whether it achieves profit or not.

Accounting is the source of the

financial information.

Accounting generates data, finance is decision-making based on that data.

With no accounting, finance is useless. Without finance, the generated data would be useless.

Financial accounting provides income information on ~~earnings~~ and expenditure. Profit is computed as their difference.

If situation is grim, we amend the policies. However, after multiple amendments, if there is no change in the situation, we are advised to drop the idea.

The basic question of any financial activity is whether we are earning profit.

The concept of business has changed over the years. As opposed to the past, the amount of work & no of products in service line is

Subject matter of accounting
→ economic information

has changed.

AAA → reputed body of accounting.
American Accounting Association

★ Defn (Accounting) by AAA

It is a process of identifying, measuring and communicating economic information to ~~permit~~ the users of the information

Stake → value at risk, which we may lose.

The accounting information is vital to the stakeholders (i.e. those who have stake in the business).

Stakeholders

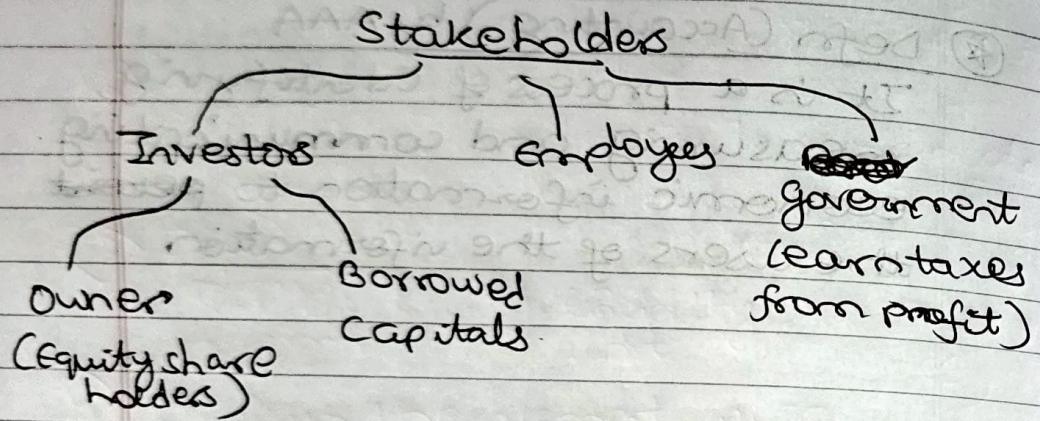
Investor

Owner

(Equity share holders)

Borrowed capitals

Providing financial services (such as loan & borrowing) is always associated with an 'interest'.



Stakeholders take important decisions in their own perspective. (i.e. whether to remain having a stake in the company)

The decision is based on quality and timeliness of information.

A) Explain AAA defn of accounting - Define the terms involved. Info about stakeholders.

Scarcity → Less in supply which is lower than existing demand.
Resources → something useful.
Perspective → point of view

Quantity of information required by each stakeholder is different.

Cost accounting

Resources

- Freely available resources
(Ubiquitous)
- Sand in desert
- Water in ocean
- Sunshine

Cost is the quantum of scarce resource sacrificed to achieve a specific objective.

Q) What do you understand by cost? Explain the keywords. Example

For profit

- Maximise income } best possible way
- Minimise cost } given the constraints.

Objective: To obtain inputs
No of segregation = No. of inputs

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Segregation of cost based on element:

① material cost

Tangible (something which have physical existence - which we can touch & consume) → materials are tangible items. (Book; paper, etc.)

② Wages/Labour cost

(people operating machine)
Paid to human beings to compensate for the physical exertion in services they provide.

③ Expenses

Rent, electricity, loyalty

Q) Explain the element wise segregation of cost. Give examples.

Classification of Cost based on Traceability



Direct cost

Can trace the cost to a particular product, i.e. we can establish one-to-one relationship b/w cost & product.

[Benefit ONLY 1 product]

Indirect cost (Overheads)

Paying money for benefits on multiple items. [more than one product]

Direct cost: Paper cost. (material cost)

Indirect cost: Ink cost (b/w 2 machines)

(material cost)

cost allocation: charging the cost required for a product to that particular product. (direct cost is allocated to one product)

Overhead cost apportioned: Divided among the multiple products it impacts.

Base of distribution is the issue of concern:-

It should be the ratio of getting the benefit out of that item.

If there is a floorspace & two products are made, the distribution is done on the amount of floorspace reqd. to manufacture each product.

FMCG → fast moving consumer goods company (bathing soap → 10 brands; each having 3 soaps for each economic class of people)

segregation of cost

Acc. to function

• Places (factory)

- Selling Distribution Point

Research & Development

Manufacturing, Administration.

Each place has a cost associated with it:-

Selling Distribution cost (salesman, ADV, packaging)

R&D cost [capital expenditure]

manufacturing cost (factory)

Administrative cost (office)

- R&D cost reaps benefits over a period or span of years.

- Amortisation :- Spread the cost across the tenure of benefit

Acc. to behaviour

- Variable costs (changes over time)

- Fixed cost (remains fixed over time)

- Semi-variable cost (remaining fixed for a time)

what is cost?

Q) Explain the cost classification

Q) Explain specific classification of cost.

14/08/2024

Balance sheet lists the liabilities and costs of products.

method of costing

One system of costing is not feasible.

Multiple systems based on industries, needs to be formulated. The methods of costing may not be applicable across industries.

Industries

Goods manufacturing

Service rendering

Cost unit : unit against which you can compute cost. (e.g. per kg)

There is no ambiguity to determine cost unit of goods.
(Eg: Rice → per quintal / kg)

for services

For transportation, there are two

types of goods & passengers.

Goods transport can be cost per km, but it does not take into account the weight of goods transported and vice-versa. Hence, there is an ambiguity in the method of costing.

~~Operating costing~~: Using a composite unit, i.e. giving weightage to both aspects (distance and weight of goods)

Goods transport can be 2 types:-

- Standardised goods
- Non-standardised goods : made according to customer.

Averaging (Total cost by no. of items) for standardised items.

The cost of each unit need not be determined separately.

Non-standardised goods are different from each other. Hence,

they cannot be averaged. Either they need to be observed separately, which is a very tedious task.

Averaging is still ambiguous because it involves rounding off (say ₹0.51 is rounded to ₹1).

This causes an issue to accuracy. Hence there is a tradeoff with accuracy.

Standardised product

Simple raw material production

Raw material + process = product (final product)

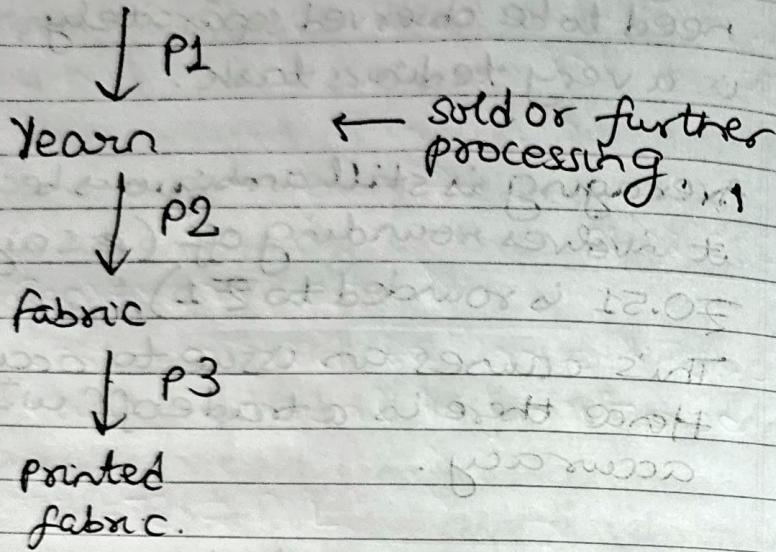
O/P of process 1

Becomes I/P of process 2 and so on.

Complexity increases.

It may be that multiple products are made after process 1, which may have options of sell/further processing.

(e.g.) Raw cotton



The value & importance of the product determines its care.

If we have 10 kg gold & 10 kg coal, we place AK47 outside gold vault but it would be foolish to do so for coal.

Joint products → 2 products having same value.

standardised goods

Unit/output costing

process
Costing

Goods but non-standardised

Job costing

A job no. is attached to every job.

Cost is computed for each job separately.

(For construction business)

Contract costing

The entire story must be settled at the onset through the contract and agreed by both parties, to avoid litigations.

Architect certificate + Retention :- to be taken into consideration

The work will be evaluated by architect & money to be decided accordingly.

- Paying full money at onset X
- Paying

Q) Why do we need diff. methods of costing?

Q) What are the different methods applicable for diff industries?
What are their salient features?

Conversion cost

Cost incurred to convert basic raw material to final product.

$$S = TC \pm P/L$$

S → sales

P → Profit

TC → Total cost

L → Loss

TC

(COC)

Direct

Indirect (overheads)

Admin

(DM)

Direct material

(Starting point)

Direct Expenses
(DE)

Direct wages

Manufacturing

Selling & Distribution

$$\text{Prime cost} = \sum_{DC} = DM + DW + DE$$

overheads (O/H) are added stagewise.

$$\text{Profit} = \text{Sales} - \text{cost}$$

ways to increase profit:-

→ Sales increase: Not ^{easily} possible due to other factors (taste of consumer, price of competitors, etc.). Not always within control.

→ Reduce cost: cannot be made zero. But, best effort can be aimed at, to minimise resource wastage. [Cost Reduction]. Some logical, sustained & systematic states.

Adding cost in a segregated manner so that individual performances can be analysed.

Adjudicating sub-ordinates their respective tasks ^{is} important.

Otherwise it would lead to undirected performance.

prime cost = Summation of
Direct Costs.

work cost /

Work cost /
Factory cost = Prime Cost +
manufacturing Cost

Cost of production (COP)

= Factory Cost + Admin Cost

Cost of Sales (cos)

= COP + Selling / distribution
Point cost (S/D)

Total Cost (TC)

= S/D ± profit/loss.

Title: Cost Sheet / Profit Statement. / ^{cost} statement

- Inner column includes all cost.
Amt column must have currency indicated.

A cost sheet relates to a particular point of time OR period of time.
(As on / As at)

Balance sheet → shows accounting details just at the closure of the financial period.

format

~~cost sheet~~

for the period ended.

(e.g. week ended 07 Jan 2024)

(e.g. month ended 31 Jan 2024)

(e.g. quarter ended 31 Mar 2024)

~~X X X~~

All costs beyond the aforesaid period is discarded.

~~✓~~ ~~✓~~ ~~✓~~

三

10

— 1 —

✓ # opening stock of Raw material
 + purchase of Raw material
 - closing stock of Raw material
 Raw material Consumed.

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(Underline stages)

Cost sheet
 for the period ended.....

particulars	Amt (₹)	Amt (₹)
Direct material	X	
Direct Wages	X	
Direct Expenses	X	
<u>Prime Cost</u>		XXX.
<u>add factory overhead</u>	X	
add opening work in prog	X	
sub add closing work in prog	X	
<u>adjusted factory cost</u>		XXX.
<u>add Administrative overheads</u>	X	
	X	
	X	
<u>Cost of Production</u>		XXX.
<u>add Sales & Distribution</u>		XXX.
<u>Port overheads</u>		XXX.
:	X	
:	X	
:	X	
<u>Cost of Sales</u>		XXX
<u>Profit</u>		X
<u>Sales</u>		XXX

Add opening finished goods
 Sub closing finished goods
cost of goods sold.

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Assumptions

- whatever raw material purchased is used

~~Reorder~~ Lead time: Time b/w placing order & obtaining raw materials.

If material is unavailable whilst procuring, it leads to no production.

Notional opportunity loss may occur due to out-of-stock scenario.

To tackle lead time, we can place the order prior to 'lead time' ~~number~~ amount of time

Stocks are of 2 types (Acc. to time)

- Opening stock
- Closing stock (-)

(Acc. to percentage of completion)

- Basic Raw material (-) 0%
- Finished goods (100%)
- Work in Progress (WIP) (-) [below] 100%
(i.e. semi-finished goods) (0%)

Treatment

Closing Stock : The amount of direct materials remaining unused ~~after~~ ^{during} the period of the cost sheet.

Closing stock is subtracted.

Work in Progress : Not sold.

To be subtracted.

finished goods : Not sold. Subtracted.

FIFO (First In First Out) System.

LIFO (Last In First Out)

HIFO (Highest In First Out)

Opening Stock : If any material has been procured in prev. month & eliminated from prev. month cost sheet as closing stock, then if it is used in the next month, it is added as opening stock.

(+) (93W) 22000009 in below -

20000000

(-) (93W) (doop borking fine .91)

04/09/2024

~~Cost sheets~~

(x)

Balance sheet

Liabilities	Assets
→ Long Term Liabilities:- Capital, Reserves, Long Term Loans	→ Financial Assets :- Plant, Land, etc.
→ Current Liabilities: outstanding expenses, bank overdraft	→ Current Assets :- cash, bank, stock

Result

- 1) If profit : Indicates to continue with those policies
If loss : Revisit the policies. → Leads to loss of capital.
- 2) Impact of Result on financial condition

Assets cannot alone indicate profit, liabilities need to be taken into consideration too.

Cost sheets are calculated every ^{term} ~~month~~ because profit is important for every period, for analysis.

- > How to decide in which product we will do business?

What is business? (is defined on the perspective of the person contributing to that business)

An engineer will define it in technical terms

An HR person will answer it in terms of human beings.

Business definition (as per finance)

Requirements

- Funds : How to arrange for funds / what are the sources of finance
- Invest : Using funds to purchase some fixed assets, so that they can produce something which can be sold & earned from (to generate income & earn profit)

Management is essential as a decision making process. (Routine & Problem situation)

> Steps involved

→ Aware : knowledge about the problem

cause analysis → Know Reason for the problem

→ Develop alternating ways to solve the problem (bcz many problems do not have unique solutions)

→ Assess the alternative solutions : Scope of implementation.

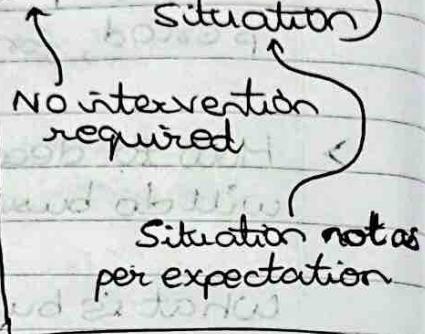
→ Implementation

→ Feedback : Sometimes a theoretically best decision may not be practically feasible.

Presupposition : Alternative ways of solving the problem exist.

Worst case scenario for options :- Whether or not to do business?

Next, choosing which business to get



Involved into → on which item (decision is based on which business gives more profit).

Profitability is the prime important factor in decision making. This decision affects the profile of the assets.

Assets ← Investment Decision.

Evaluate to find out the profitability of each product.

More profitability (i.e. higher returns) involves more risk.

A balance needs to be done between two types of profitability & risk.

Easing risk would imply safety of investment & hence compromise on profitability.

~~→~~ Sources of fund.

- Equity Share Capital
- Reserves / Surplus
- Debt Capital (long term loans) / Bond

| - preference
| shared
| capital

$\$ \leftarrow$ Return

The person who provides the funds would be asking for return.

procuring cost) Each source of funds has cost of capital (k_o) ← overall

k_e - equity

k_d - debt

k_p - ~~transient~~ → ~~stable~~

k_d - ~~the bit of stability~~

Decisions

→ $k_o > r$: Conclude NOT to start the business

→ $k_o = r$: It's like a social service

→ $k_o < r$: Ideal situation.

1) Organise investment/financing decisions in such a way that $r > k_o$

2) Maximise the spread b/w r and k_o : To maximise the value of the firm (main objective of finance).

Q) What is the main objective of

finance? → investment decision & financial decision (2-3 pgs.)

11/09/2024

Investment Decisions

Project which gives maximum return is chosen.

Initial Investment → ~~cash outflow~~

Cash obtained after selling → cash inflow

Outflow should be deducted from inflow of respective business ← known as

Net Cash Inflow (+ve value)

Net Cash Outflow (-ve value)

Decision is taken on maximum Net Cash Inflow.

In a small-scale business, net inflow/outflow is obtained on the same day.

In a large-scale business, it can be after few years. This is a difference in time period.

If we have non-addable units, we can convert them to a common unit & thus make them addable.

Each dollar (or rupee) ~~at~~ ^{in any} point sum ~~of time~~ should be same, in order to be addable.

Money does not have any value. Its value is its purchasing value (command over goods and services). More purchasing power increases basket size.

We can add ₹50 with ₹60 because value of each ₹ in ₹50 is 6 AM & value of each ₹ in ₹60 in 6:10 AM doesn't have much difference of value.

However, if that sum is ₹50 or ₹60 ^{over a year}, then the value of ₹1 in that would change. Hence, they are not addable, just like ₹50 + ₹60.

- Why the ~~value of~~ money that is offered to me changes?
- Value of money changes over time
- Investment & Interest
- Denied due to external reasons