Cost Sheets

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A **cost sheet** is a statement which shows the various components of the total cost of manufacturing a product. It classifies and analyses the components of the cost.

Using the cost sheet, we can assign a certain **profit percentage** we want based on the cost and calculate the **selling price** of the product.

## Importance

* **Cost Ascertainment** – A cost sheet can help ascertain the costs of a product after the costs are incurred. They can also help ascertain the actual cost or the estimated cost.
* **Fixation of Selling Price** – As discussed above, a statement of the costs of a product can help with deciding what the selling price of the product should be.
* **Cost Control** – An estimated cost sheet prepared for every manufacturing unit can help control costs at every point of production.
* **Facilitate Managerial Decision Making** – A cost sheet can help management make decisions like whether to buy or produce a component, whether to replace a machine, etc.

## Components of Total Cost

A cost sheet breaks down the different costs into several components.

### Prime Cost

**Prime Cost**, also called the basic, first, flat or direct cost, aggregates the cost of **material consumed**, **productive wages** and **direct expenses**.

We have not previously discussed **direct expenses**. These are expenses directly related to production, such as the expense of renting a machine.

If the value of **direct material** is not provided, it can be calculated as:

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | | **Amount ($)** | **Amount ($)** |
| Opening Stock of Raw Materials | | 6,000 |  |
| Purchase of Raw Material | | 30,000 |  |
|  |  | 36,000 |  |
| Closing Stock of Raw Material | | (4,000) |  |
| Direct Material | |  | 32,000 |
| Direct Wages | |  | 3,000 |
| Direct Expenses | |  | 5,000 |
|  | Prime Cost |  | 40,000 |

### Factory Cost

**Factory Cost**, also called the work cost, production cost or manufacturing cost, is the sum of the **prime cost** and any **factory overheads**. Factory overheads consist of indirect material, indirect wages and indirect expenses.

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | | **Amount ($)** | **Amount ($)** |
| Prime Cost | |  | 85,000 |
| Consumable Stores | | 2,000 |  |
| Oil Grease/Lubricants | | 500 |  |
| Unproductive Wages | | 1,000 |  |
| Salary of a Factory Manager | | 6,000 |  |
| Factory Rent | | 2,000 |  |
| Repair and Depreciation on Machine | | 600 |  |
|  | Factory Overheads |  | 12,100 |
| Factory Cost | |  | 97,100 |

In the above table, **productive wages** refer to **direct wages** and **unproductive wages** refer to **indirect wages**.

### Adjustment of Stock of Work in Progress

The cost of incomplete units, known as **work in progress**, includes direct material, direct labour, direct expenses and average factory overheads.

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | | **Amount ($)** | **Amount ($)** |
| Factory Cost (Gross) | |  | 119,000 |
| Add: Opening Stock of Work-In-Progress | |  | 13,000 |
|  |  |  | 132,000 |
| Less: Closing Stock of Work-In-Progress | |  | (7,000) |
| Works or Factory Cost (Net) | |  | 125,000 |

If the work in progress amount is not mentioned, then the **gross factory cost** is the same as the **net factory cost**.

### Total Cost of Production

The **Total Cost of Production** takes **office and administrative** overhead into account as well as the factory cost.

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amount ($)** | **Amount ($)** |
| Factory Cost (Net) |  | 156,000 |
| Office and Administration Overheads |  | 18,000 |
| Total Cost of Production |  | 174,000 |

### Cost of Goods Sold

The **Cost of Goods Sold** takes into account the amount of stock of finished goods that have been sold.

Adding the opening stock of finished goods to the total cost of production gives us the **Cost of Goods Available for Sale**.

### Total Cost

The **Total Cost** takes into account the **selling and distribution overheads**.

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amount ($)** | **Amount ($)** |
| Total Cost of Production |  | 304,000 |
| Selling and Distribution Overheads |  | 33,000 |
| Total Cost |  | 327,000 |

### Sales

**Sales** takes into account the amount of **profit**.

The profit can be provided as a percentage of the selling price or as a percentage of the cost price. If the profit on selling price is provided, we need to convert it into profit on cost.

## Preparing a Cost Sheet

### Illustration 08

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | | **Amount ($)** | **Amount ($)** |
| Opening Stock of Raw Materials | | 12,500 |  |
| Purchase of Raw Material | | 136,000 |  |
|  |  | 148,500 |  |
| Closing Stock of Raw Material | | (8,500) |  |
| Direct Material | |  | 140,000 |
| Direct Wages | |  | 54,000 |
| Direct Expenses | |  | 12,000 |
|  | Prime Cost |  | 206,000 |
| Factory Overhead | |  | 54,000 |
|  | Factory Cost |  | 260,000 |
| Office and Administrative Overhead  [0.2 x 260,000] | |  | 52,000 |
|  | Total Cost of Production |  | 312,000 |
| Opening Stock of Finished Goods | |  | 12,000 |
|  | Cost of Goods Available for Sale |  | 324,000 |
| Closing Stock of Finished Goods | |  | (15,000) |
|  | Cost of Goods Sold |  | 309,000 |
| Selling and Distribution Overhead | |  | 26,000 |
|  | Total Cost |  | 335,000 |
| Profit | |  | 67,000 |
|  | Sales |  | 402,000 |

In some cases, it might be useful to keep a column for **Cost Per Unit**. For example, suppose we have a situation where we know the Opening Stock of Finished Goods ($12,500), the units produced during the period (12,000) and the units at hand at the end of the year (1,500). In this case, we would need to know the cost per unit to be able to calculate the Closing Stock of Finished Goods. This is illustrated in the table below.

### Illustration 09

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | | **Total Cost ($)** | **Cost Per Unit ($)** |
| Opening Stock of Raw Materials | | 20,000 |  |
| Purchase of Raw Material | | 122,000 |  |
|  |  | 142,000 |  |
| Closing Stock of Raw Material | | (10,000) |  |
| Direct Material | | 132,000 | 11 |
| Direct Wages | | 36,000 | 3 |
| Direct Expenses | | 24,000 | 2 |
|  | Prime Cost | 192,000 | 16 |
| Factory Overhead  [0.5 x 36,000] | | 18,000 | 1.5 |
|  | Factory Cost | 210,000 | 17.5 |
| Office and Administrative Overhead  [0.2 x 210,000] | | 42,000 | 3.50 |
|  | Total Cost of Production | 252,000 | 21 |
| Opening Stock of Finished Goods | | 12,500 |  |
|  | Cost of Goods Available for Sale | 264,500 |  |
| Closing Stock of Finished Goods  [21 x 1,500] | | 31,500 |  |
|  | Cost of Goods Sold | 233,000 |  |
| Selling and Distribution Overhead | | 33,000 |  |
|  | Total Cost | 266,000 |  |
| Profit on Cost  [(20 (100 – 20)) x 266,000] | | 66,500 |  |
|  | Sales | 332,500 |  |

Also note that in the above illustration, the **Profit on Sales** was provided at . The **Profit on Cost** had to be calculated form this using the formula: