TOPIC

The concept of Normal and Abnormal Loss

Normal loss = Absorb by good units ⇒ It will increase cost per unit

eg:- Cost of Production ₹ 100000
No of units 10000 units
Normal loss @ 2-1.

⇒ if No Normal loss (cost per unit)

⇒ $\frac{100000}{10000}$ = ₹ 10

⇒ Now Normal loss @ 2-1. (cost per unit)

⇒ $\frac{100000}{10000-2-1.}$ = ₹ 10.21

* Impact: Cost P.U. increase by ₹ 0.21 (10.21 − 10)

10,000 − 2-1. = 9800

Abnormal loss

Transfer to costing P/L A/c

DR

eg:- what if in same eg. Actual Production is 9500 units find Abnormal loss?

Abnormal loss (units) = 10000 − 2-1. − 9500 = 300

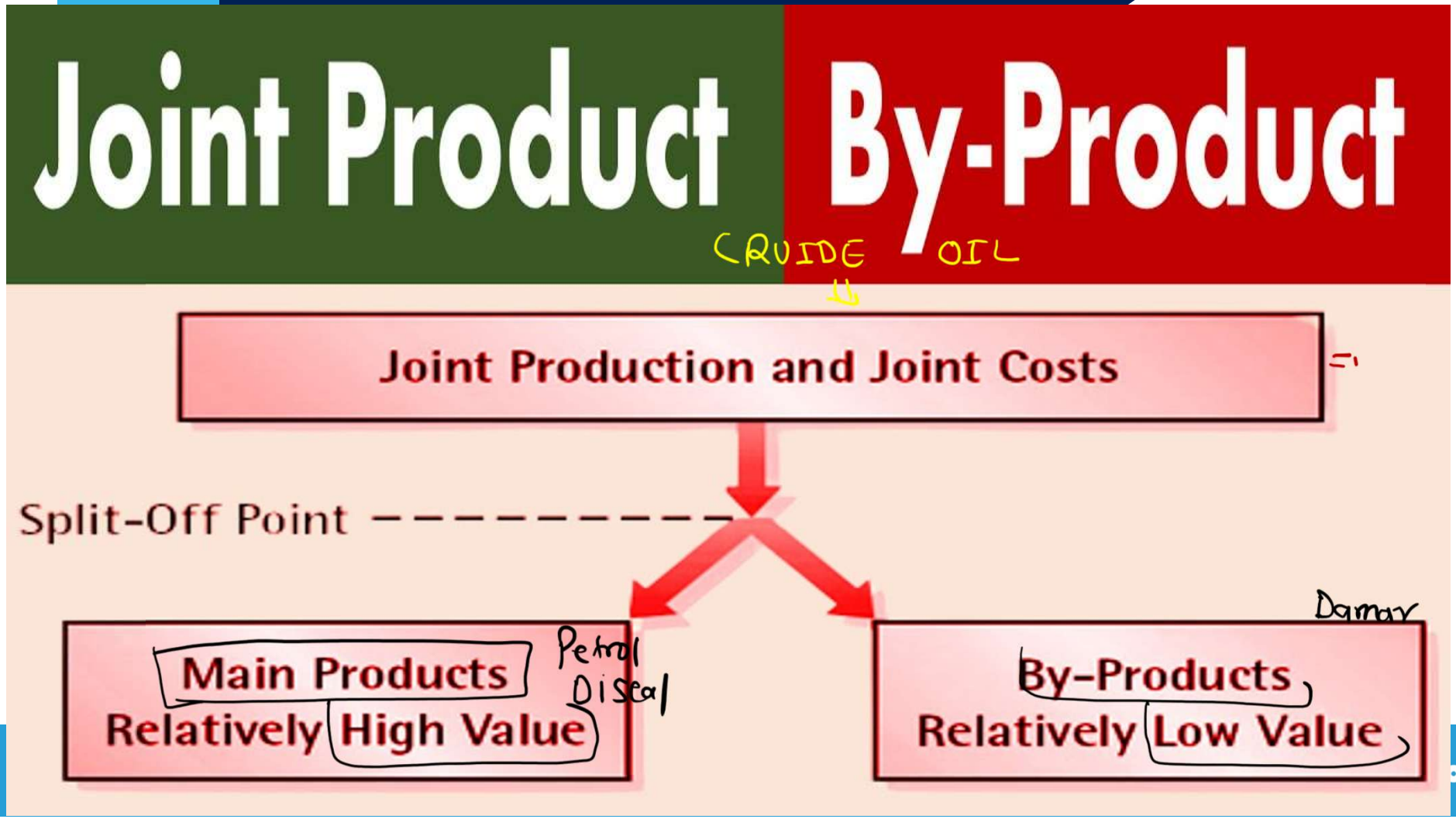
Abnormal loss value = 300 × 10.21 = 3063

Transfer to costing P/L

DR

TOPIC

Joint Product By-Product



TOPIC

BATCH COSTING

"Production lot Size"

lot Size to minimise cost Per batch

सूत्र (Formula):- $EQB = \sqrt{\frac{2DS}{C}}$

$\Rightarrow \sqrt{\frac{2 \times 20000 \times 100}{4}}$

$\Rightarrow$ 1000 units

Where

D = Annual Demand $\Rightarrow$ 20000

S = Setting-up Cost per Batch $\Rightarrow$ ₹100

C = Carrying Cost per unit per annum $\Rightarrow$ ₹4

EBQ = Economic Batch Qty

↳ min. cost of Batch Production

✓ SERVICE COSTING ⇒ Operating Costing ⇒ eg:- Hotel, Transport, Bank, Insurance

↳ $\frac{\text{Total cost of Service}}{\text{No. of Services}} = \frac{50,00,000}{100000} =$ ₹50 Per Service Per Person

✓ Multiple Costing ⇒ Assembling business ⇒ Bicycle, Electronics

TOPIC

TOPIC

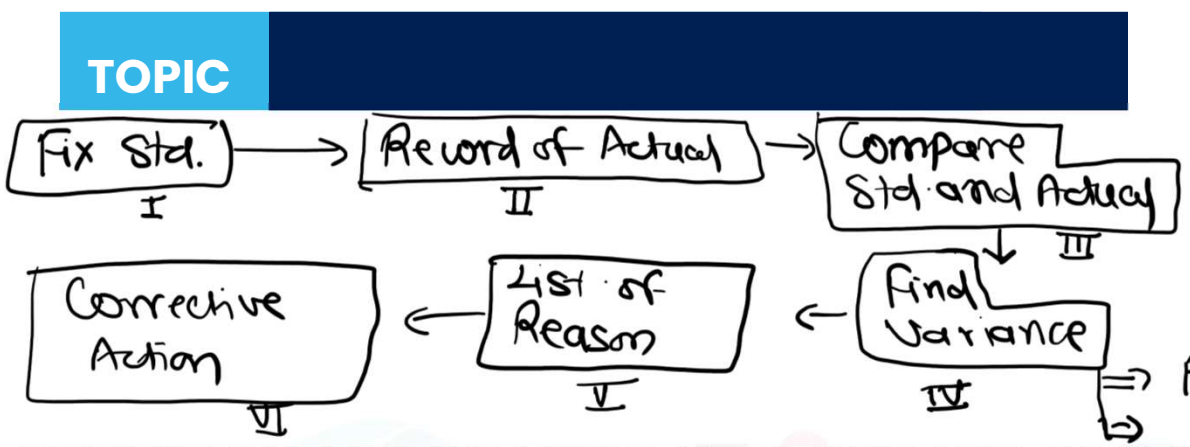
Unit -5 Standard Costing

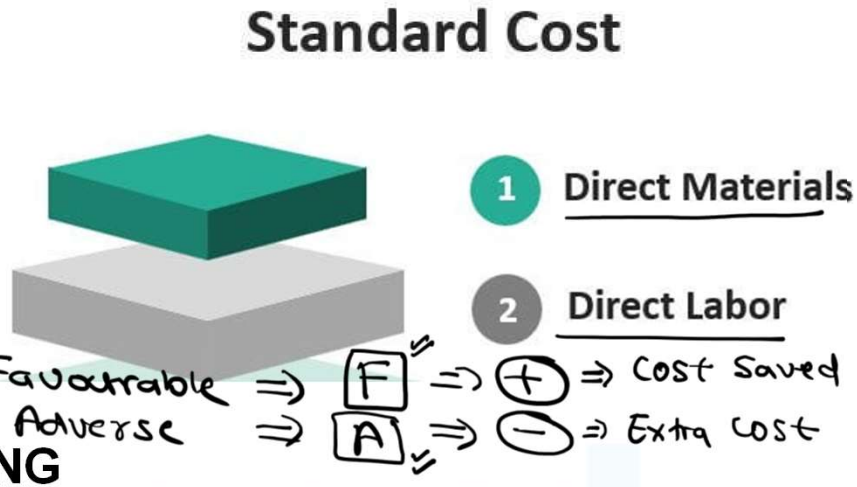
- Technique = Cost Control
- Method = Records of cost

Types

- Basic Standard (long term)
  - min. level of Performance
  - eg:- 2000 units
- Ideal Standard
  - Best Possible Performance
  - if everything is in favour
  - eg:- 15000 units
- Currently Attainable Standard
  - " Performance based on Available resources "
  - Possible Performance
  - ⇒ eg:- 10,000 units

TOPIC





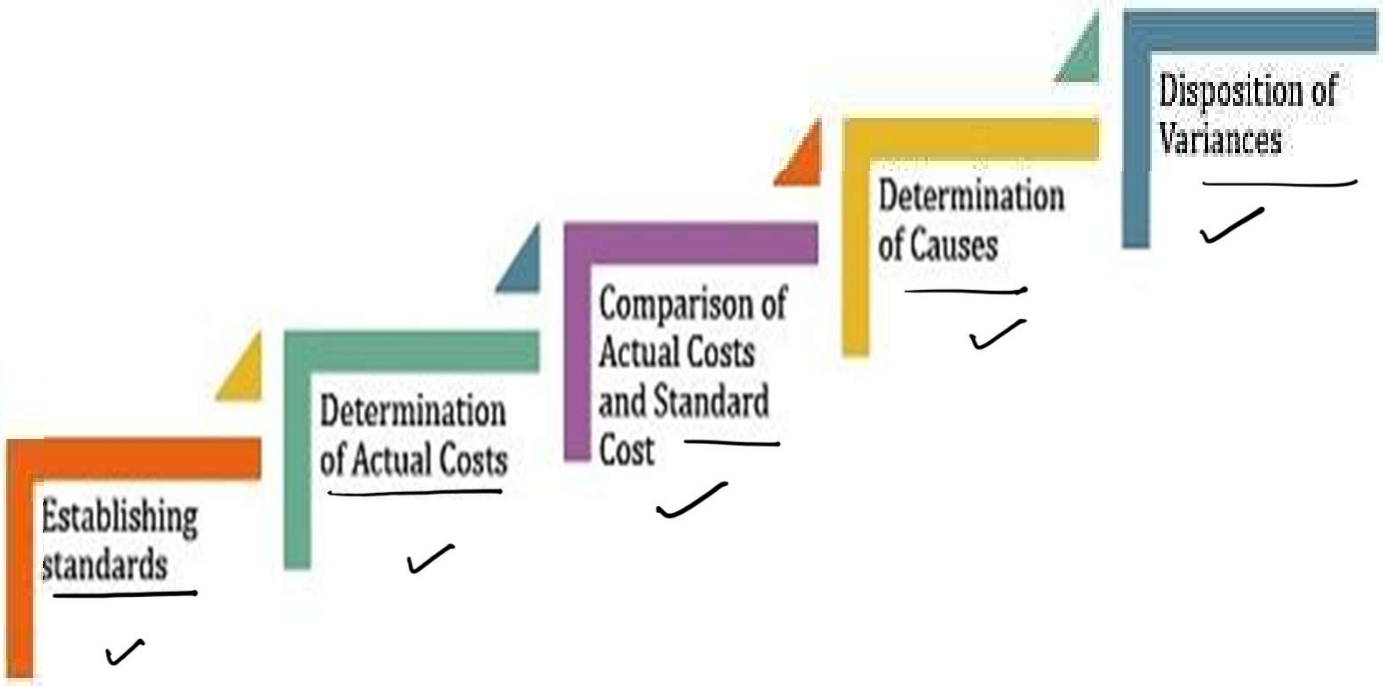
DEFINITION AND MEANING OF STANDARD COSTING

Standard cost of a product or service refers to the costs expected to be incurred to produce a goods or provide a service under anticipated conditions, keeping in view the prevailing market conditions

APPLICATIONS OF STANDARD COSTING

- The management uses it for planning.
- The production, sales and profit budgets are prepared based on the standard costs.

TOPIC



TOPIC

VARIOUS TYPES OF STANDARDS

Basic Standards

These are the standard which are established for use over a long period of time.

Ideal Standards

These standards take into account the perfect performance.

Currently Attainable Standards

If frequent changes take place in production methods, price levels, labour conditions and other relevant factors of production, it is advisable to make necessary adjustments in the cost standard also to make it more realistic.

COMPONENTS OF A STANDARD COSTING SYSTEM

MATERIAL VARIANCES ⇒ Cost = Price + Usages (Qty.)

Material Cost Variance	(SQ x SP) – (AQ x AP) ⇒ (1000 x 40) – (1050 x 38) = 100 F
Material Price Variance	(SP - AP) x AQ ⇒ (40 – 38) 1050 = 2100 F
+	
Material Usage Variance	(SQ - AQ) x SP ⇒ (1000 – 1050) x 40 = 2000 A

Eg:- Standard Quantity = 1000 SQ
Standard Price = ₹40 SP
Actual Quantity = 1050 AQ
Actual Price = ₹38 AP

Q = H
P = R

LABOUR VARIANCES

Cost = Rate + Efficiency

Labour Cost Variance	(SH × SR) − (AH × AR) ⇒ (100 × 500) − (120 × 430) = 1600 (A)
↑↑	
Labour Rate Variance	(SR − AR) AH ⇒ (500 − 430) × 120 = 8400 (F)
+	
HRs	
Labour Efficiency Variance	(SH − AH) SR ⇒ (100 − 120) × 500 = 10000 (A)

Eg:

Standard Hours = 100 SH
Standard Rate = 500 P. hr. SR
Actual Hrs = 120 AH
Actual Rate = 430 P. hr. AR

TOPIC

ACCOUNTING TREATMENT OF VARIANCES

1. Transfer to costing profit and loss account ⇒ Abnormal Variance = Costing P/L = DR.
   ⇒ Fav. = Costing P/L = CR.
   ⇒ Adverse = Costing P/L = DR.

2. Allocation of variances to finished stock, work-in-progress and cost of sales account

↳ if Normal Variance then Good units will Absorb Normal Variance and due to this Cost Per unit will increase

Eg: Std. Product 1000 units
Std. Cost ₹ 10,000
Normal loss @ 2·1·
Actual Production is 950 units
Treat Normal loss and Abnormal loss

⇒ if No loss (Cost P.U.) ⇒ 10,000 / 1000 = ₹ 10 P.U.

⇒ if Normal loss (Cost P.U.) ⇒ 10,000 / 980
1000 − 2·1· = 980 units (Good units)
₹ 10·20 P.U.

⇒ Computation of Abnormal loss unit ⇒ 1000 − 2·1· = 980 − 950 = 30 units ⇒ Abnor. Loss

⇒ 30 units × 10·20 = ₹ 306 ⇒ Costing P/L A/c ⇒ DR.

TOPIC

Cost of Producing ↑ 1 Additional unit ↓ Marginal Cost

$MC = TC_n - TC_{n-1} \Rightarrow 20000_{(100)} - 19850_{(99)} \Rightarrow$ Cost 100th Units = ₹ 150

$MC = \frac{\Delta TC}{\Delta Q_p} \Rightarrow$

	2023	2024	Δ
TC	50000	60000	10000
Q_p	10000	14000	4000

$\Rightarrow \frac{10,000}{4000} = ₹ 2.5$

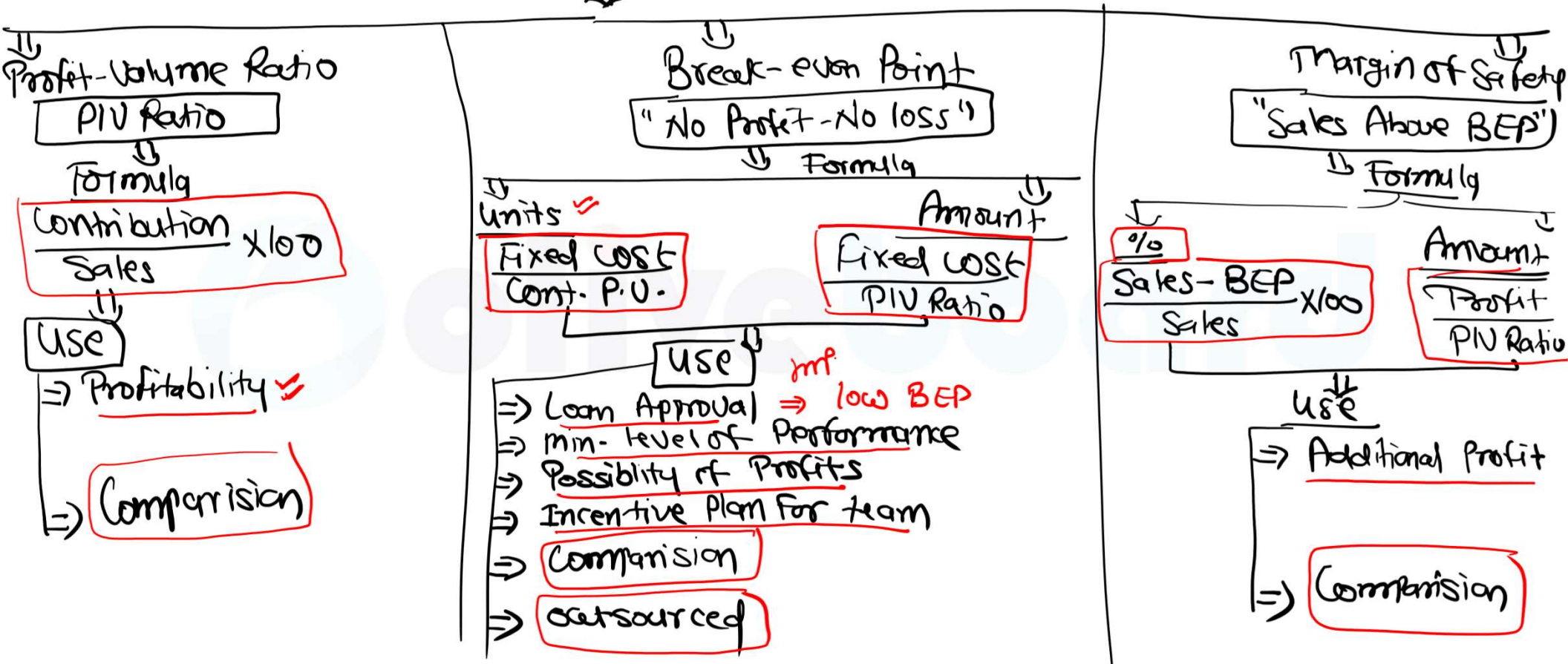
Unit -6 Marginal Costing

Features:

1. Technique of cost used for cost control and record keeping
2. Provides information to top management for decision making = [Part of Management Accounting]
3. It considers only Variable cost as Part of Product cost → Relevant
4. It considers Fixed cost as Period cost → Irrelevant
5. Used for Comparision

TOPIC **Factors of Marginal Costing**

⇒ Cost - Volume Profit Analysis



TOPIC

eg:- DAS Ltd looking into cost component of a Product and found following info:
Sales ₹50,00,000 VC @ 60% Fixed cost ₹10,00,000. No. of units sold 100000.
Find: ① PIV Ratio ② BEP (Units, ₹), ③ MOS (%, Value)

Sol.

Income Statement

Sales	50,00,000
- VC @ 60%	(30,00,000)
Contribution	20,00,000
- Fixed cost	(10,00,000)
Profit	10,00,000

* Cont. Per unit:
C = 20,00,000 / 100000 = ₹20
No. Unit

① PIV Ratio = $\frac{\text{Cont.}}{\text{Sales}} \times 100 = \frac{20L}{50L} \times 100 = 40\%$

② BEP:
⇒ Units = $\frac{FC}{\text{Cont. PU.}} = \frac{10,00,000}{20} = 50,000$ units
⇒ ₹ = $\frac{FC}{\text{PIV Ratio}} = \frac{10,00,000}{40\%} = ₹25,00,000$

③ MOS
⇒ % = $\frac{S - BEP}{S} \times 100 = \frac{50L - 25L}{50L} \times 100 = 50\%$
↳ Value = $\frac{\text{Profit}}{\text{PIV Ratio}} = \frac{10,00,000}{40\%} = ₹25,00,000$

TOPIC