TOPIC

- **Methods of Costing** ⇒ "Tools used for Cost Computation and Cost Record"
- ✓ **Job Costing** : Specific order Based := eg:- Service Center of Car, Printing Press
- ✓ **Batch Costing** :- lot Size Production := eg:- Pharma business (Job Costing type)
- ✓ **Operation Costing** (Dept. Costing) :- Cost Computation based on function in org. ⇒ Marketing cost, Production cost
- ✓ **Process Costing** :- Production happens through multiple Process ⇒ eg:- Sugar, oil, chemical, Cement
- ✓ **Unit or Single-output Costing** ⇒ Homogenious Product ⇒ eg: Bricking
- ✓ **Service Costing** ⇒ (Operating Costing) ⇒ Service Providers ⇒ eg:- Bank, Hospitals
- ✓ **Multiple or Composite Costing** ⇒ Assembling business ⇒ eg:- Bicycle, Transport, Electronics
- ✓ ~~**Departmental Costing**~~
- ✓ Contract Costing : (Type of Job Costing) ⇒ eg:- Construction business
  if Job > 1y

Table Showing Cost Units and Methods of Costing for Different Industries/ Enterprises

Industry/Enterprise	*Cost Unit*	*Method of Costing*
Steel/Cement	Tonne	Process Costing
Sugar	Tonne, Quintal	Process Costing
Textiles	Metres, Yards	Process Costing
Bicycle Manufacturing	Number	Multiple Costing
Aircraft	Number	Job Costing
Hospital/Nursing Home	Per bed occupied per day/out patient visit	Operating or Service Costing
Timber	Cubic Foot	Process Costing
Transport	Tonne Kilometer, Passenger Kilometer	Operating Costing
Chemical	Tonne, Kilogram	Process Costing
Readymade Garments	Numbers	Batch Costing
Building	House or Area or Square Feet	Job Costing or Contract Costing
Soft Drinks	Cases of 24 bottles each or per bottle of different weights	Process Costing
Confectionery	Per Kg.	Process Costing
Automobile	Number	Process Costing
Brickkiln	Per 1,000 Bricks	Output Costing
Case Making	Per Case	Job Costing
Coal	Per Tonne	Single or One Operation or Output Costing
Interior Decoration	Per Job	Job Costing
Pharmaceutical	Per 1,000 Tablets, Ampulses	Batch Costing
Furniture	Per Unit	Multiple Costing
Advertising	Per Job	Job Costing
Oil Refining	Per Tonne/Quintal	Process Costing

HW

TOPIC

Costing methods are use to ascertain the cost of product or services. For example- job costing, process costing, contract costing etc.

While costing techniques are used to control and minimize the cost. Examples of costing techniques are -Activity Costing (ABC), Marginal Costing etc.

TOPIC

- **Techniques of Costing?** :- Controlling cost
- **Historical (or Conventional) Costing** :- Past data based Control
- **Standard Costing** :- Control based on standards fixed at Planning stage.
- **Marginal Costing** :- Control based on Variable Cost of Production Per unit
- **Uniform Costing** :- Apply common cost methods across the company then Control it.
- **Direct Costing** :- Control cost directly related to Product (ignore overheads)
- **Absorption Costing** :- Control both VC and FC
- **Activity Based Costing (ABC)** :- Control based on Activity in org.
  - Marketing Cost
  - Production Cost

TOPIC

Cost Accounting Standards ⇒ ICMAI = Institute of Cost and Management Acc of India
↳ CAS

In India, the Cost Accounting Standards (CAS) have been issued by the Institute of Cost Accountants of India ~~(ICOAI)~~.

MANAGEMENT ACCOUNTING ⇒ "Generates info. in Summarized way."
⇒ Fin. Acc
⇒ Cost Acc

Robert Anthony, "Management accounting is concerned with accounting information which is useful to management." ⇒ for decision making

The evolution of Management Accounting has its roots in the industrial revolution of the 19th century,
↳ UK

TOPIC


ANALYSES AND INTEPRETS DATA
ASSIST IN PLANNING
ASSIST IN ORGANIZING
FUNCTIONS OF MANAGERIAL ACCOUNTING
DECISION-MAKING
TO CONTROL AND COORDINATE
TREND ANALYSIS

TOPIC

overhead = Common Exp

UNIT 32
COSTING METHODS ⇒ ⇒ Cost Computation ⇒ Cost Records

Costing is the process of determining the expenditure incurred in producing a product or providing a service.

UNIT AND SINGLE-OUTPUT COSTING ⇒ Homogenious Product ⇒ eg:- Brick making

This method of costing involves finding out the cost of the total output and then finding out the cost of one unit by dividing the cost of total output by the number of units produced.

Cost Sheet

1. Prime Cost = Raw material Consumed + Direct labour + Direct Exp.
2. Factory Cost (Works Cost) = Prime Cost + Factory overhead
3. Cost of Production = Factory Cost (work cost) + Admin. overhead
4. Cost of goods Sold = Cost of Production + Selling and distribution overhead
5. Sales = COGS + Profit

TOPIC

Op. Stock of RM	70,000	
+ Purchase of RM	2,00,000	+
− Cl. Stock of RM	(20,000)	−
Raw Material Consumed	2,50,000	
+ Direct labour	1,00,000	
+ Direct Exp	50,000	
① Prime cost	4,00,000 ÷ 1000 = ₹400	
+ Factory OH	1,00,000	
② Works cost / Factory cost	5,00,000 ÷ 1000 = ₹500	
+ Admin OH	50,000	
③ Cost of Production	5,50,000 ÷ 1000 = ₹550	
+ Selling and dist OH	50,000	
④ Cost of goods sold	6,00,000 ÷ 1000 = ₹600	
+ Profit	2,00,000 ÷ 1000 = ₹200	
⑤ Sales	8,00,000 ÷ 1000 = ₹800	

P.U.

eg:- Op. Stock of RM = 70,000
Purchased RM = 2,00,000
Cl. Stock of RM = 20,000
Labour Exp = 1,00,000
Direct Exp = 50,000

Overhead:

Factor = 1,00,000
Admin OH = 50,000
Selling OH = 50,000

Profit Per unit = ₹200
No. of units Produced = 1000 units

TOPIC

JOB COSTING ⇒ "Business is Specific order driven" ⇒ Job Costing = ⇒ Contract Costing (Job > 1Y) ; ⇒ Batch Costing (⇓ lot Size) Pharma Business

Job costing system is required by the industries where each unit or batch of output of a product is different form the other units or batches.

Applications of Job Costing

Examples are: engineering and construction companies (⇒ Contract Costing) ship-building/furniture making machine manufacturing companies, repair shops, automobile garages and such other industries where jobs or orders can be segregated.

Job Account ⇒ Job-card ⇒ Seperate for each Job

Date	Particulars	Materials ₹	Labour ₹	Direct overheads ₹	Total ₹	Analysis of total cost
4-8	—	—	—	—	—	—
5-8	—	—	—	—	—	—
6-8	—	—	—	—	—	—

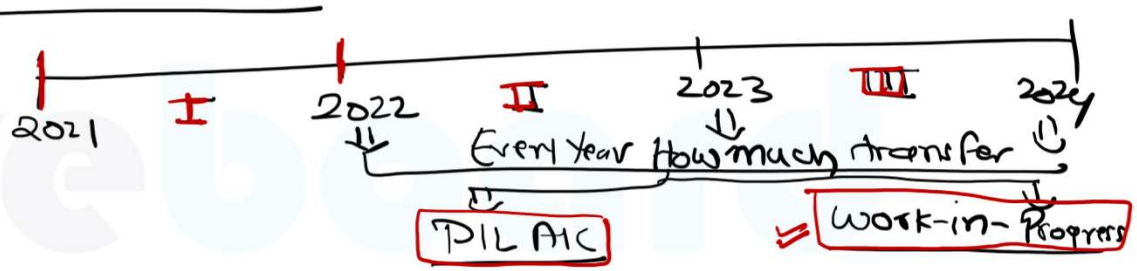
TOPIC

CONTRACT COSTING

= long Period Jobs like >1y ⇒ Eg:- Construction business

Contract costing is a form of job costing applied to relatively larger jobs which take a considerable time to complete (normally, more than one year.)

Eg:- Cont. Price = ₹80,00,000
Cost. Cost = ₹50,00,000
Est. Profit = ₹30,00,000
⇒ Time 3y



Types of Contracts

1. Fixed price. ⇒ ₹50,00,000
2. Cost plus: ⇒ Cost + ₹10,00,000 (Profit)
3. Time and material: ⇒ [6m + Raw Material] ⇒ Fee ₹10,00,000

Progress Payments and Retention Money

⇒ Work certified
Expert opinion — PIL
⇒ less than 25% ⇒ 0
⇒ 25% – 50% ⇒ 1/3
⇒ 50% – 90% ⇒ 2/3
⇒ 90% + ⇒ formula
⇒ Work uncertified

TOPIC

P/L 0 WIP 30L

1.If Work Certified is less than 25% :- Then in that case profit will not determine and whole amount will be transferred to Work in Progress A/c

NIL

2. If Work Certified is 25% or more but less than 50%:-
Profit to be Transferred to P & L Account:-

$$Notional\ profit \times \frac{1}{3} \times \frac{Cash\ Received}{Work\ Certified}$$

1/3

3. If Work Certified is 50% or more but less than 90%:-
Profit to be transferred to P & L Account:-

$$Notional\ profit \times \frac{2}{3} \times \frac{Cash\ Received}{Work\ Certified}$$

2/3

4. If Work Certified is 90% or more:
Profit to be transferred to P&L Account:-

$$Estimated\ Profit \times \frac{Work\ Certified}{Contract\ Price}$$

90% WC x 80L = 72L

$\Rightarrow$ 30L x 72L / 80L =

27L 3L

TOPIC

Escalation Clause ⇒ Condition ⇒ "Contract Price will increase in Proportion to Inflation in cost of Input = ⇒ Raw material ↳ Labour Cost

As a contract is spread over a long period of time, the contractor runs the risk of price escalation of input costs.

Profit on Incomplete Contracts

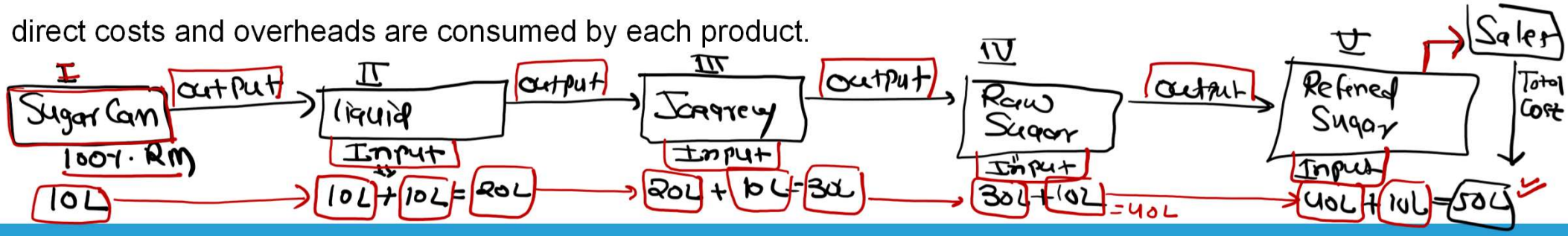
AS 7 and Ind AS 115 also recognise this principle and provide guidelines in this respect.

Profit to date = (Cost of work completed / Total estimated contract cost) * Estimated contract profit.

PROCESS COSTING ⇒ When Single Product is Produced through many Process ⇒ Eg:- Sugar

Meaning of Process Costing = ⇒ I Process – 100% RM Introduced ⇒ Cost Accumulator in each Process ↳ Output of one Process becomes Input of next Process

Process costing system is used when there is mass production of similar products or services. Same amount of direct costs and overheads are consumed by each product.



Process costing ⇒

⇒ Sugar
⇒ oil / Gas
⇒ Chemical

WIP = 10,00,000 × 70% = 7,00,000
Cost Per unit = ₹100

- Characteristics
  - Identical units
  - Continuous flow production
    - Never "complete"
  - Move from process (or department) to process
  - Costs are accumulated by process for a time period
    - Allocated to "equivalent units" of output during the period

WIP = 700000 (10,00,000)

⇒ Not Allowed in Process Costing

Process A/c

WIP 7000 units ⇒ Shown in units and not in Total Value
× 700000/100 = Qty.

Imp ⇒