Cost Accounting

Cost accounting is a branch of accounting related with Recording, classifying, summarization and interpretation cost information for internal use of management which help in planning, controlling and decision making.

Cost concepts are use in trading business, service business and manufacturing business. In manufacturing concern there are three main elements of cost.

**Direct Material**

**Direct labor**

**Factory Overhead**

1. Indirect Material
2. Indirect labor
3. Any Other Manufacturing

**Direct Material**

Direct material is that material form an integral part of finished good product and that can be included directly calculated the cost of product

Direct material all those material measure part of product

All those material which can be identified calculated with product

**Example:**

Timber in chair or table, cloth in shirt, Basic or essential packing materials like cartons, papers etc.

**Direct Labour**

Direct labor is that labor which direct participate in production

Direct labor is labor that expended to convert direct material into the finished goods.

All labor that can be identified or calculated with product is called direct labor

Direct Expenses

All cost other than direct materials or direct labour. These are directly charged to products and treated as part of prime cost.

**Example:**

Cost of special patterns, drawing, tools etc, made for a specific product. Hire charges of special tools or equipment for a particular job, maintenance cost of such special tools or equipment.

Cost of any special process for manufacture.

**Factory Overhead**

The aggregate of all indirect material, labor and any other indirect expense.

All manufacturing expense except than direct material and direct labor is called factory overhead.

**Indirect material**

Indirect material all those material needed for completion of product. but the consumption of which is so minimum or so complex that treating them as direct material as futile

Material cost which cannot be identified or allocated in product but which are to be observed by the unit produced

**Example:**

Fuel, Lubricants, tools for general us, glue, threat in shirt, nails in shoes etc

**Indirect labor (Wages)**

Indirect labor may defined as that which does not directly affected and participated in finished good

Labor cost which cannot be identified or allocated by product is called indirect labor

**Example:**

Idle time wages, maintenance and repair wages, leave pay, employee contribution to fund.

**Indirect Expenses**

All cost other than indirect material and indirect labour which cannot be allocated or identified, but which are to be absorbed by the units produced.

**Example:**

Canteen, Depreciation, Insurance, Taxes and rents, heat and lights etc.

Other Manufacturing

All indirect cost expects than indirect material and indirect labor is called other manufacturing expense.

Cost Elements

Direct Material

Direct labor

Factory Overhead

Work in process (assets)

Finished Goods (assets) Work In Process (e)(assets)

Cost of Goods Sold (expense) Finished Goods (Assets)

Cost Component

Direct Material prime cost

Direct labor

Factory Overhead conversion cost

**Cost Classification According To Nature**

**Manufacturing Cost** **Commercial cost**

Direct material Marketing expense

Direct labor Administration expense

Factory overhead

Types of cost (overhead) according to production

**Fixed cost (overhead)**

**Variable cost (overhead)**

**Semi variable cost (overhead)**

**Fixed cost (overhead)**

It is refers to those expenses which do not vary /change with increased or decreased in production level. Total amount of fixed overhear remains constant with all level of production.

**Variable cost (overhead)**

It is refers to those expenses which do not vary /change with increased or decreased in production level. Total amount of variable overhead changes with all level of production.

**Semi variable cost (overhead)**

A part of such expenses is fixed and part of variable

**Advantages Of cost accounting**

Determining selling price

The objective of determining the cost of products is main importance of accounting the total product cost and cost per unit of product are important in deciding selling of product.

Controlling Cost

Cost accounting help in cost controlling by using various techniques such as budgeting control standard cost and inventory control.

Providing information for decision making

Cost accounting help the management in providing information for managerial decision making for formulating polices.

Ascertaining cost profit

Cost accounting helps in ascertain the costing profit or loss of any activity on an objective basis by matching revenue and profit