

First class

- * To see the average of a large set of observations we need to remove the extremities
- * 10 yrs experience = 1 year experience \times 10 times

Company



An organization
that does business

Business



A company that does
something that ultimately
yields profit

"Anything that ultimately leads to generation
of Profit"

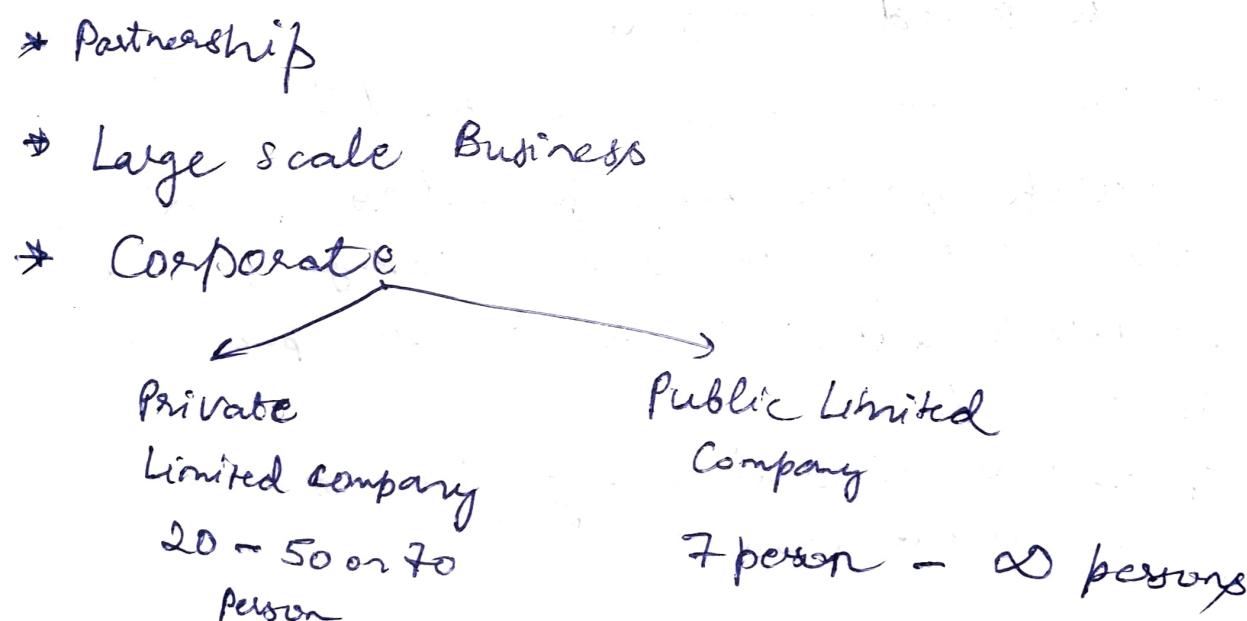
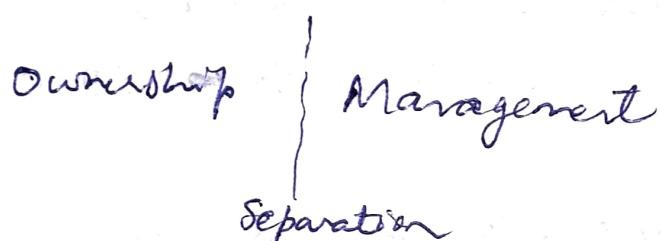
- * A business will never do anything that yields no profit
- * Ability to make ~~not~~ decisions and accept the responsibility of those decisions \rightarrow Requires knowledge of basic finance
- * Don't sign on Blank page

Finance: Knowledge reqd. to interpret financial accounts and records, and take decisions.

Accounting: The practice of maintaining financial records in a systematic manner.

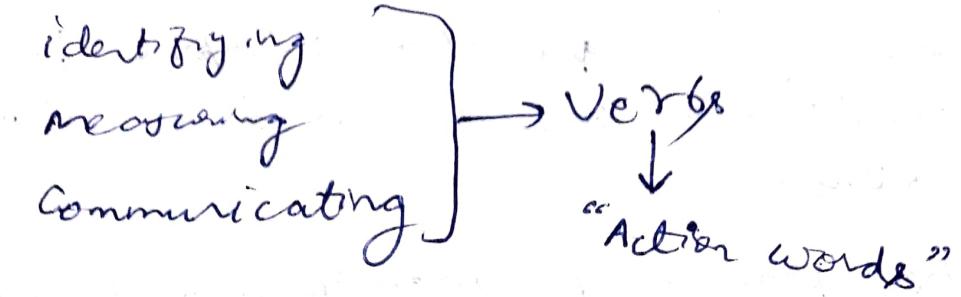
Syllabus is Truncated. ~~•~~

<u>India</u>	<u>US</u>
ICSI Chartered Accountant	AICPA / AAA CPA (Certified Public Acc.)



AAA definition: Process of identifying,
↓
See from internet

In examination you have to analyse each keyword mentioned in definition



Requirement of information for each of the managers / workers / Government is different. We cannot supply the same information to all of them. We need to ~~not~~ provide only that specific information that ~~can~~ ^{needs to} be utilized by the receiver to take decision. 'decision making' process is similar to solving a math problem.

- If data is insufficient, the problem cannot be solved by anyone
- If data is in excess, we need to search for the key information from the mixture given to us (wastage of time)
- If data is sufficient, a capable person can solve the problem
- If data is presented neatly, the solving process will be easier

Who needs Accounting information

- ① Managers: to compare their performance between different departments, between their competitors; improvement over 1 year, profitability check

Stake: Value at Risk

② Stakeholder

- + Investors
- + Consumers
- + Partners

+ Government ~~poorly~~ invested

Anyone who has ~~paid~~ some money ~~to~~ ⁱⁿ the company in the hope of getting benefits

'Future is Uncertain'

We have to buy things then sell it in future, but future is uncertain.

RISK

~~Finance personnel are required whenever a company has~~ Companies believe in taking calculated risk. Risk-taking is the only way by which a company can progress.

The calculations required ~~for~~ for making these calculated risks are done by finance people. And for doing any calculation we need data. The data is supplied by Accounting people.

we will study only Cost accounting
Cost accounting is suited for Manufacturing business

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

Only 2 ways to increase profit

Sales ↑ or Cost ↓

Sales depends on : ① Price
② Consumer taste
③ Price of substitutes / competing products

Business theories on Repeated sales

We cannot control the amount of sales.
Bcoz sales depends on 'future'

We can only cut down the cost

But we cannot compromise on Quality

Eliminate wastage

Manufacture a given qty of product
in least possible cost

Costing

* Deciding the cost of an item

Cost Accounting

* Making an account of the costs incurred at each stage of production of a commodity

~~Colonel Juby~~ Colonel Juby - Definition of Cost

Quantum of scarce resources required to each to achieve a specific Objective

What is Cost Accounting

Types of Cost

element-wise classification

Input-wise classification

Tangible items

(Material Cost)

→ Paper

~~income~~

→ ink

Intangible items

Compensation

paid to some human being for doing ^{physical} labour

→ Cost of ~~both~~ labour

Intellectual property

Expenses

[Neither materials nor compensation to some human being]

23/Aug/23

Cost accounting

Started a business to earn profit → Not earning profit

↓
Earning Profit
Continue in same way

↓
Change Policies & Strategies

↓
Restart business

↓
Repeat 2-3 times if still no profit

↓
After 2-3 failures Stop

the business and invest the capital elsewhere

Losses are deducted from the capital
Profit and loss lead to change in capital

Exchange that takes place on a sustaining basis is called Business

Operating Costing

Unit Costing

Process Costing

Contract Costing

Job Costing

Types of Costing

Operating costing : ~~Total cost of operating~~
{ I don't know see from
internet }

Unit Costing : If there is something in a cost account that requires a separate cost analysis to be made, such a thing is called Unit costing.

Process Costing : Costing analysis done for manufacturing a particular product in a factory is called Process costing.

Job costing : When a commodity has to be prepared exclusively for a single consumer and it has to be made ^{uniquely} according to the consumer's specification. Such situations require Job costing.

Contract costing : In contract costing, the methodology used for costing is dictated by a legal document called 'contract'. This costing is done for large infrastructure projects like dam construction.

Costing Numerically

6th September

31 August ~~she did not take class~~

$$\text{Selling Price} = \text{CP} \pm \text{Profit/loss}$$

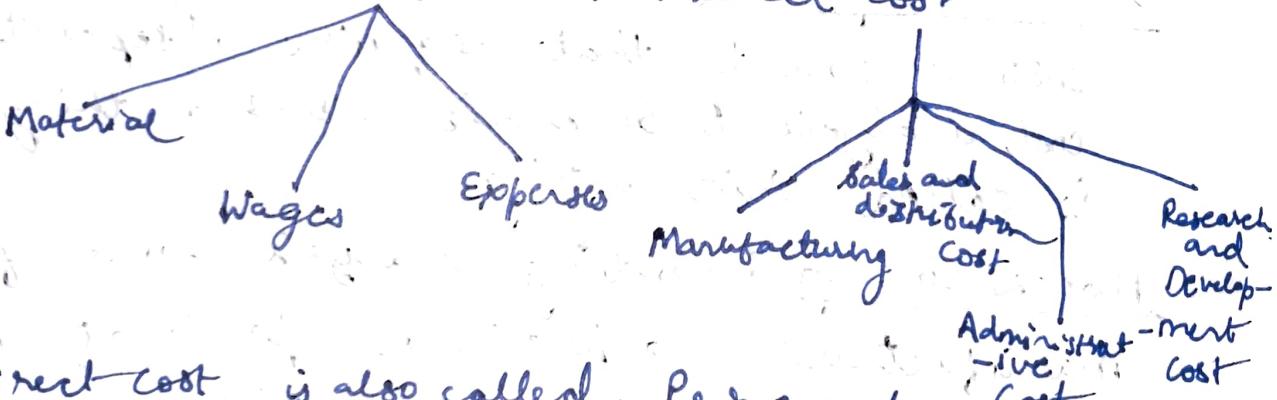
$$\text{SP} = \text{Total cost} \pm \text{Profit/loss}$$

Total cost consists of several component according to traceability.

Direct cost

Indirect cost
Overhead

$$\text{TC} = \text{Direct cost} + \text{Indirect cost}$$



Direct cost is also called Prime cost.

Research & development cost cannot be charged from consumer. This cost is drawn from Capital.

Value Addition

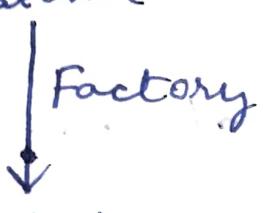
$$\text{Value of Raw material} + \text{Value of Labour} + \text{Electricity} + \text{Administration} + \text{Rent} = \text{Value of Final product}$$

Raw material $\xrightarrow{\text{Processing}}$ Final product

Cost involved that is added to the raw material cost to get total cost is called Conversion cost

Sequence of Movement of Product

Raw Material



Processing cost
Electricity
Labour
Administration
Transport co

Office

[Passes virtually through
the office]

Telephone charges
Office costs
Manager salary
~~Advertisement~~

• Distribution Point

Handling cost
Shopkeeper's ~~profit~~ commission
Showroom rent
Advertising cost

Raw material



Works cost / Factory cost

Cost of Production



Administrative cost

Point of sale

Total cost

We follow a proper sequence in accounting so that we can easily find out where wastage of money is taking place and who should be blamed for the underperformance of one industry.

Cost sheet for the month ended July 2023

Actual / Mercantile basis of Accounting

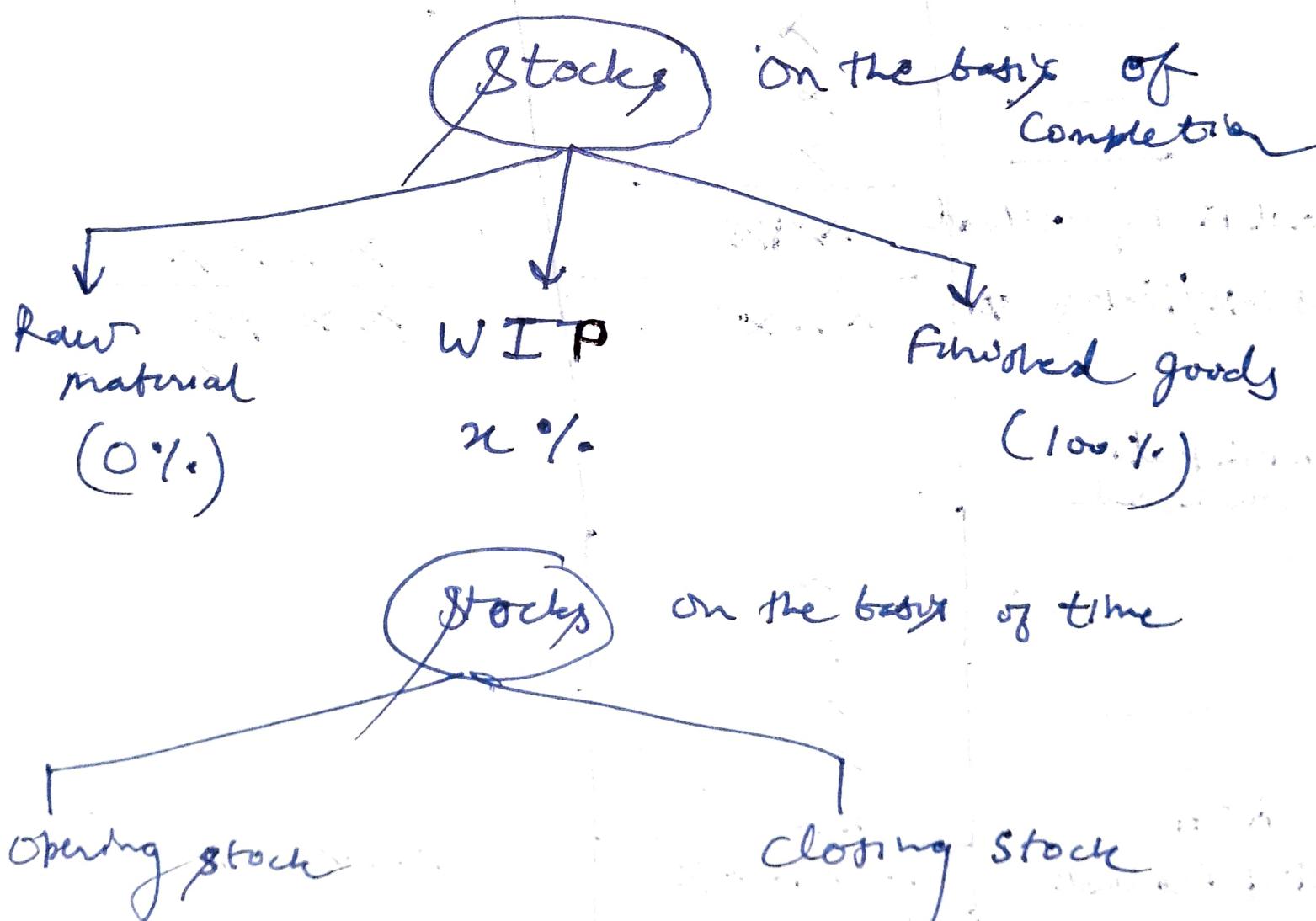
- * ~~We can see~~ We add all expenses that are incurred at every stage.
- * We calculate the subtotals ~~as~~ for purchase of raw materials, Factory overheads, Administrative overhead, selling and distribution.
- * By analysing the expenses incurred at each stage we can calculate determine the points where wastage is happening.
- * Start a new statement on a new page of the answer script.

Add some space here

Particulars	Calculation	Amount
Direct Material	x	
Direct Wages	x	
Direct Expenses	x	
Prime Cost :	xxx	
<u>Factory overhead</u>		xx x
	x	
	x	
	x	
	x	
Total Factory overhead	xxx xx	
* Works cost / Factory Cost	xx x	x x x x x x + x
Administrative overhead		
	x	
	x	
	x	
	x	
Total AOH	xx	
Cost of Product	x x x x x	x x x x x
Add S/D		
	x	
	x	
	x	
cost of sales profit	xx	y
Selling Price	xx x	x x x

Tata Nano and West Bengal Govt. Land Scam

- lead time
- Stock of raw material [closing stock for sawmills]
- Just in Time selling
- Closing stock of finished goods
- WIP closing stock



How to treat ~~Closing~~ stock

Opening ~~stock~~ ~~cost~~ = Added

Closing stock = Subtracted



It is added Above Direct Material Cost

Opening stock of Raw Material 20000

less - Closing stock (6000)

Raw material Consumed 14000

First bracket means
Subtract

~~WIP~~ Opening WIP and closing WIP
are added to Works cost

• Works cost + ~~the~~ Opening WIP - Closing
WIP = Adjusted Works cost

• Cost of Product + Opening stock of finished
goods - Closing stock of finished goods
= Cost of goods sold

WIP = Work in Progress

Carriage Forward

Carriage Outward

Cost incurred in transporting finished goods ~~to~~ from Factory to

~~Seller~~ Point of Sale.

~~Added to cost sheet~~

It is the cost incurred in bringing the raw material from the supplier's warehouse to the factory.

It is added before Direct wages and after Material cost.

~~Added to cost sheet~~

In Question, we do not have to use all the data provided in the problem. Some given data needs to be ignored.

If there is anything that does not relate to the production of the product : Do NOT write that thing in the cost sheet.

Eg)

Balance in Bank
Interest on Loan

Discount allowed by material supplier

Capital

These will be included in Profit / loss Account
Not in cost sheet

13th September

In problems 7 to 10, we have to prepare second cost sheet based on first cost sheet. We have to calculate the forecasted costs on the basis directions given in the question / using the same percentage increase in the cost as was utilized in the first cost sheet.

For example : In 1st cost sheet : works cost = £ 1 lakh
Selling and distribution overhead
= £ 10,000

In second cost sheet

Works cost = £ 1.5 lakh

\therefore Selling and distribution overhead = $10\% \text{ of works cost}$
= $10\% \text{ of } £1.5 \text{ lakh} = £15000$

another type of problem

~~You are~~ Part (i) Prepare a cost sheet from given data

Part (ii) You are given a particular bulk order from a consumer at a given quoted price. You have to decide whether to accept that offer or not.

~~Bulk order : Suppose you have to buy 1,00,000 pens. So what you do is to~~

Why discount allowed should NOT be included in cost sheet?

Because 'discount allowed' is the loss that a seller incurs because he has to sell the product at a lower price due to ~~unavoidable~~ reasons such as :

- ① Buyer unable to pay the full price at the ~~time~~ moment.
- ② Goods get damaged / spoiled
[For example, a ~~shop~~ seller of ready made garments usually offers some discount on lightly defective goods otherwise nobody will buy those goods]
- ③ Seller is in urgent need of money
- ④ To clear off old stock

This discount has to be applied because there was mismanagement in the finances.

Therefore the product itself has no ~~discount~~

∴ Discount allowed is not relevant in calculating the cost of a product

⇒ Discount should not be added in cost sheet

Interest on loans

Loans are issued when there is a financial crunch or when we require expansion of business.

Loans ~~are~~ are not related to the production of chalk

∴ Interest on loan is not added in cost sheet

Scrap

Proceeds obtained from sale of scrap are subtracted from direct material cost!!

General expenses

These are considered under the category of Administrative overhead

Travelling expenses

These are spent for travel allowances of salesmen

∴ Selling and Distribution

Purchases Return

Subtract from direct material cost

~~Sales returns and Rebates~~

Subtract from Sales

Expenses on Purchase is same as Carriage inward

Carriage inward → Add to material cost

" " Outward → Add to selling and distribution

Coal

For steel plant / Thermal P.P. / ~~etc.~~

Add to Raw materials

For others :

Add to factory overhead

If type of company not specified

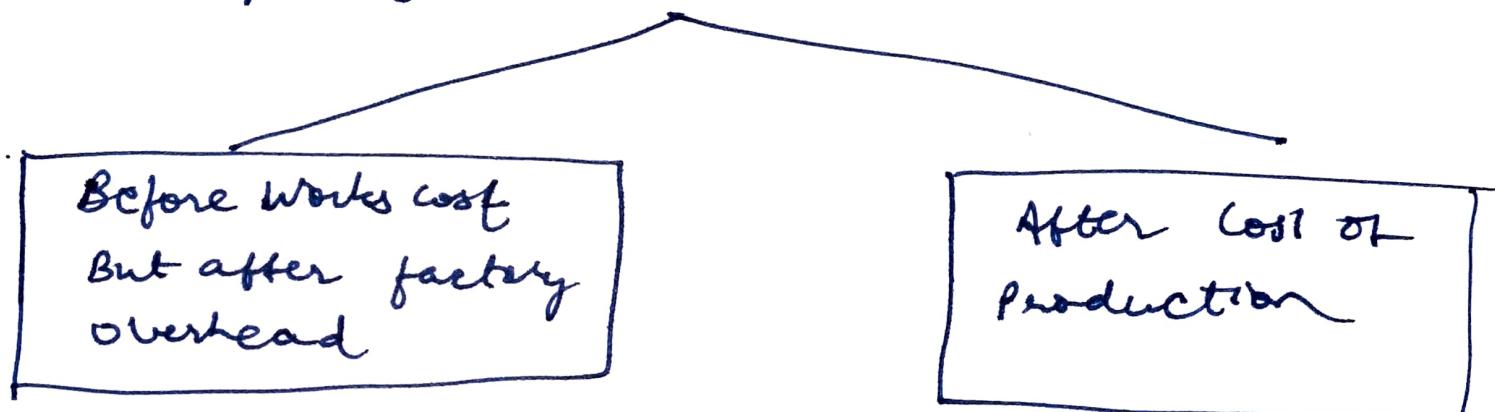
Assume whatever you like
and write your assumption in
a foot note

* Show the working for any figures numbers
that you are writing in the cost sheet but
not mentioned in the question

Purchase of Finished goods :

When demand > ~~Supply~~ Production capacity
the company has to purchase some finished
goods from other companies.

Purchase of finished goods can be added at
2 places



Because Both the
manufactured items
and ~~final~~ purchased
items follow the
same route

Treating purchased
goods as
Opening stock of
finished goods

→ Administration → Selling
&
Distribution

If Assume any 1 case as per ur wish and
show the assumption in footnote

Important

Do NOT use any abbreviations in
cost sheet