Preparation of Cost Sheet

Meaning

The cost sheet is a statement that provides detailed information related to the different cost stages. It also shows the total cost of the product made during a specific time period. Consequently, the cost sheet is prepared for a specified time period monthly, quarterly, annually.

Cost sheet objectives

1. To determine the selling price

The cost sheet helps determine the selling price of the product or service. The cost sheet verifies the cost at each stage of the product as well as the total cost of the product, where a profit margin is added and thus the selling price is verified.

2. Facilitating administrative decisions

The cost sheet preparation helps managers at various levels in their decision making process like

- To produce or purchase a component,
- What is the price of the goods quoted in the bid,
- Whether maintaining or replacing an existing machine,
- How to reduce costs and maximize profit.
- Determine and make decisions whether or not they need to continue the product.

3. Preparing budgets

Organizations can prepare a budget with the help of a cost sheet. We can prepare the budget using current or previous year data.

Based on the current cost sheet, we can make cost estimates for the following fiscal year. It helps prepare and arrange the necessary funds for the costs of the next fiscal year.

Advantages of the cost sheet

(1) Refers to a breakdown of the total cost by component, i.e. materials, labor, overhead, etc.

(2) Reveals the total cost and cost per unit of production.

(3) Facilitates comparison.

(4) Assists management in setting selling prices.

(5) Serves as a guide for management and helps in formulating production policy.

(6) Manages to keep control of production cost.

(7) Assist management in submitting quotations or preparing bids for tenders.

(8) A simple and useful means of reporting costs to various levels of management.

Elements of cost

Prime cost: It consists of direct materials, direct wages, and direct expenses. Instead, Prime cost is the cost of consumables, productive wages, and direct expenses.

Factory cost: includes factory cost, labor cost, manufacturing cost, or production cost in addition to the initial cost, the cost of indirect materials, indirect labor, and indirect expenses. Also includes quantity, WIP units, or incomplete units at the end of the period.

Production cost: When the office and administration costs are added at the end of the period to the factory cost, we reach the production cost or the cost of goods sold. Here we make an adjustment to open and close the finished goods.

Total cost: The total cost or alternative cost of sales is the cost of production in addition to the general costs of sale and distribution.

Method of Preparation of Cost Sheet:

Step I = Prime Cost = Direct Material + Direct Labor + Direct Expenses.

Step II = Works Cost = Prime Cost + Factory/Indirect Expenses.

Step III = Cost of Production = Works Cost + Office and Administration Expenses.

Step IV = Total Cost = Cost of Production + Selling and Distribution Expenses. Profit = Sales – Total Cost.

The above method can better be presented with the help of the following Performa Cost Sheet:

Cost Sheet (Proforma)

Period .....
Units Produced .....

		Details	Total	Cost Per Unit
		Rs.	Rs.	Rs.
	Raw Materials (opening)	...		
Add:	Purchase of Raw Materials	...		
		...		
Less:	Returns Outward	...		
		...		
Less:	Abnormal Loss of Materials	...		
Less:	Raw Materials (closing)	...		
		...		
	Materials Consumed	...		
	Direct Wages	...		
	Direct Expenses	...		
	Carriage Inwards	...		
	Hire of Special Plant	...		
	Chargeable Expenses	...		
	Prime Cost		...	...
Indirect/Factory Expenses				
	Indirect Wages	...		
	Factory Expenses	...		
	Factory Rent and Rates	...		
	Factory Lighting and Heating	...		
	Factory Fuel and Power	...		
	Indirect Materials	...		
	Repairs to Plant	...		
	Depreciation on Plant	...		
	Loose Tools	...		
		...		
Less:	Sale of Scrap	...		
		...		
Add:	Work-in-Progress (opening)	...		
		...		
Less:	Work-in-Progress (closing)	...		
			...	...
Factory Cost/Works Cost/Production Cost			...	...
Office and Administrative Expenses/Overhead				
	Office Rent and Taxes	...		
	Office Salary, Lighting, Insurance	...		
	Establishment Charges, Postage	...		
	Repairs, Legal Expenses, Audit Fees, Depreciation of Furniture	...		
	Management Expenses	...	...	...
	Cost of Production		...	...
Add:	Finished Goods (opening)		...	
			...	

	₹
Stock on 1st January, 2011 :	22,000
Raw materials	17,600
Finished products (1,600 tonnes)	
Stock on 30th June, 2011 :	
Raw materials	24,464
Finished products (3,200 tonnes)	35,200
Purchase of raw materials	1,32,000
Direct wages	1,10,000
Rent, rates, insurance and works on cost	44,000
Carriage inward	1,584
Work-in-progress as on 1st January, 2011	5,280
Work-in-progress as on 30th June, 2011	17,600
Cost of factory supervision	8,800
Sales—Finished products	3,30,000

Illustration

The following extract of costing information related to commodity X for the half year ended 30th June, 2011:

		Details	Total	Cost Per Unit
		Rs.	Rs.	Rs.
Less:	Finished Goods (Closing)		...	
	Cost of Production of Goods Sold		...	...
	Selling and Distribution Expenses Overhead			
	Godown Rent/Storage	...		
	Advertisement/Carriage Outwards	...		
	Selling Expenses and Commission, Showroom Rent	...		
	Salesmen's Salaries, Debt. Collection Charges etc.	...		
	Total Cost/Cost of Goods Sold		...	...
	Profit (*bal. fig.*)		...	...
	Sales		...	...

Advertising, discount allowed and selling cost 75 paisa per ton sold. 25,600 tones of commodity was produced during the period.

You are required to ascertain:

(a) The value of raw materials used

(b) Cost of output for the period

(c) Cost of turnover for the period

(d) Net profit for the period

(e) Net profit per tone of the commodity sold.

Solution

Statement of Cost		
(Period : Six months ended 30th June, 2011)	*(Output : 25,600 tons)*	
	₹	₹
Cost of raw materials consumed :		
Opening stock of raw materials	22,000	
Add : Purchase of raw materials	1,32,000	
Add : Carriage inward	1,584	
	1,55,584	
Less : Closing stock of raw-materials	24,464	
(*a*) Value of raw materials used		1,31,120
Direct Wages		1,10,000
Prime Cost		2,41,120
Factory overheads :		
Rent, rates, insurance and works on cost	44,000	
Cost of factory supervision	8,800	52,800
		2,93,920
Add : Work-in-progress as on 1st January, 2011		5,280
		2,99,200
Less : Work-in-progress as on 30th June, 2011		17,600
(*b*) Work Cost (Cost of Output)		2,81,600
Cost of output per tonne = $\frac{2,81,600}{25,600}$ = ₹ 11 per tonne.		

StatementofProfit		
	Quantity (Tonnes)	*Amount (₹)*
Works Cost (Cost of output)	25,600	2,81,600
Add : Opening stock of finished products	1,600	17,600
	27,200	2,99,200
Less : Closing stock of finished products	3,200	35,200
Cost of Goods Sold	24,000	2,64,000
Selling and distribution overheads :		
Advertising, discount allowed and selling cost @ 75 paise per tonne of output sold for 24,000 tonnes.		18,000
		2,82,000
(*c*) Cost of Sales (Turnover)		
Sales		3,30,000
(*d*) Net Profit for the period		48,000
(*e*) Net Profit per tonne of the commodity sold		
$= \frac{48,000}{24,000}$ = Rs. 2 per tonne		