* Costing → The technique in costing consists of the body of principles and rules for ascertaining the costs of products and services. The technique is dynamic and changes with the change of time. The process of costing is the day to day routine of ascertaining costs. It is popularly known as an arithmetic process.

* Cost Accounting → Cost accounting is the process of accounting for cost which begins with recording of income and expenditure and ends with the preparation of statistical data.

* Cost Accountancy – Cost Accountancy is define as "the application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability. It includes the presentation of information derived there from for the purposes of managerial decision making. Thus, Cost Accountancy is the science, art and practice of a cost accountant.

Objective of Cost Accounting –

* Cost accounting concerned with recording, classifying and summarizing costs for determination of costs of products or service, planning, controlling and reduceing such cost and furnishing the information to management for decision making.

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Objective of Cost Accounting -

1. Determine/Ascertainment of Cost -
2. Estimation of Cost -
3. Cost Control - Keep in limit
4. Cost Reduction - Reduce cost for always time by new techique. we reduce permanently.
4. Determining Selling Price -
5. Facilitating preparation of financial and other statements -

Limitation of Cost Accounting -

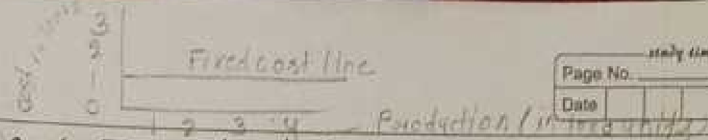
1. The system is quite expensive.
2. Preparation of Reconciliation Statement frequently is necessary. It is diffirent b/w CA and FA
3. Costing System itself does not control costs.

* Classification of Cost -

* Cost - Amount of expenditure incurred to a given thing or activity.

* Variable cost - The cost which varies directly in proportion to every increase or decrease in the volume of output / production is Variable Cost.

* Ex. Cost of Direct material, Wages of labour etc.



* Fixed Cost - The cost which does not vary but remain constant within a given period of time and range of activity in spite of fluctuation in production is known as fixed cost.
  Ex. Rent, Insurance charges, Management etc.

* Semi variable Cost - The cost which does not vary propotionately but simultaneously cannot remain stationary at all times is known as semi-variable cost.
  Ex. Depreciation, ~~Rent~~ & Repair etc.

* Product Cost - Costs which become part of cost of product rather than an expense of the period in which they are incurred. are called as Product cost
  Ex - cost of Raw material.
  Direct wages etc.

* Period Cost - Cost which are not associated with production are called Period Cost. They are treated as an expense of the period in which they are incurred.
  Ex. Administration Cost, Salesman Salaries and Commission etc.

* Direct Cost - The expense on material and labour economically and easily traceable to a product service or job are considered as Direct cost
  Ex - Material Purchased, Labour wages etc.

* Indirect Cost - The expense incurred on those items which are not directly chargeable to production are Indirect cost.

Ex. Salary of Time keeper, storekeeper, watchmen etc Accountant, manager.

* Relevant/Suitable Cost - Relevant cost are those cost which would be change by managerial decision.

* Irrelevant Cost - Irrelevent Cost are those which would not be affected by the decision
Ex - Closing down of Unprofitable retail shop.

* Shutdown Cost - During shutdown period though no work is done yet certain fixed costs, such as rent and insurance of building, depreciation cc for entire plant will have to be incurred. Such cost of the idle plant are known as shutdown cost.

* Past Cost / Sunk Cost / Historical Cost - These are the cost which have been created by a decision that was made in the past that cannot be changed by any decision that will be made in future.

Ex - Investment in Plant and machinery, building etc.

* Controllable Cost - C.C are those cost which can be control by the action of a specified member of an undertaking.

* UnControllable - Cost which cannot be so control are termed as Uncontrollable cost.

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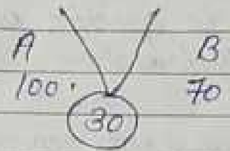
* Differential Cost - The difference in total cost b/w two alternative is termed as 'Differential Cost'



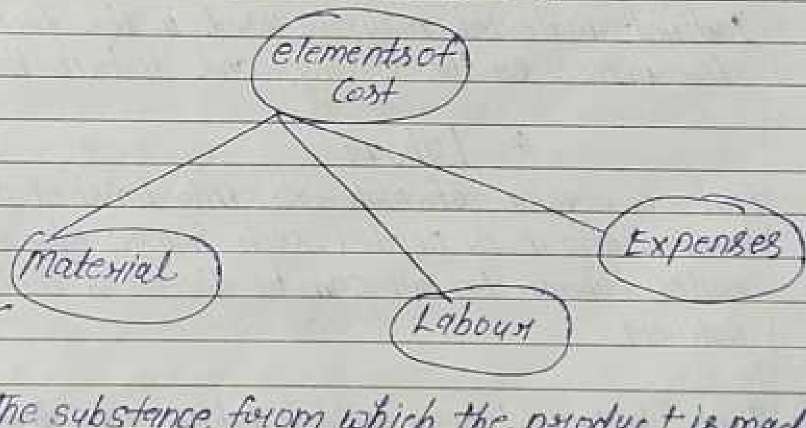
In case the choice of an alternative results in increase in total costs such increase in costs is known as incremental Cost.

In case the choice results in decrease in total costs, such decrease in total costs is termed as 'Decremental Cost'.

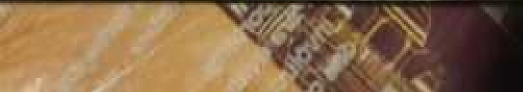
~~Methods and Techniques of Costing-~~

* Elements of Cost

There are three elements of Cost.



> The substance from which the product is made is known as material. It may be in raw, semi-manufactured or a manufacture state. It can be direct or indirect.



(a) Direct - All material which becomes an integral part of the finished product and which can be directly assigned to specific physical units is termed as direct Material.

(i) All material or components specifically purchased, produced or requisitioned from stores.

Direct material is also described as process material, prime cost material, production material, stores material, constructional material etc.

(b) Indirect Material - All material which is not used directly in the production are termed as indirect Material. Consumable stores, oil and waste, printing and stationery material, etc.

Indiret material may be used in the factory the office or the selling and distribution.

2. Labour

For conversion of materials into finished goods, human effort is needed, such human effort is called Labour. Labour can be direct as well as indirect.

(a) Direct labour - Labour which takes an active and direct part in the production of a particular product is called direct labour. Direct labour costs are therefore, specifically and conveniently traceable to specific products.

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Direct labour is also described as process labour, productive labour, operating labour etc.

* **Indirect labour** → labour which not takes an active and direct part in the production of a particular product is called indirect labour. for example watchmen salaries, accountant salaries etc. these are not directly participate in labour cost but they are involve indirectly.
Indirect labour may relate to the factory, the office or the selling and distribution divisons.

3. Expenses

Any other cost besides material and labour is termed as expense. Expenses may be direct or indirect.

Direct Expenses – These expenses are those expenses which are directly, conveniently and wholly allocated to specific cost centres or cost unit. Examples of such expenses are : hire of some special machinery required for a particular contract, cost of defective work incurred in connection with a particular job or contract etc.
Direct Expenses are sometimes also described as "chargeable expenses".

Indirect Expenses – These are expenses which cannot be directly, conveniently and wholly allocated to cost centres or cost units.
The indirect expenses are rent, rates, insurance, salaries, lighting, charges etc.

Overhead

The term overhead includes indirect material, indirect labour and indirect expenses. Thus, all indirect costs are overheads.
A manufacturing organisation can broadly be divided into three divisions:

1. Factory or Works where production is done.
2. Office and Administration, where routine as well as policy matters are decided and.
3. Selling and Distribution where products are sold and finally despatched to the customer.

Overhead 3 Types -
Overhead may be incurred in the factory or office or selling and distribution divisions. Thus, overheads may be of three types.

- Factory overheads
- Office and Administration overheads
- Selling and distribution overheads.

(Factory Overheads)

1. Indirect material used in a factory such as lubricants, oil, consumable stores etc.
2. Indirect labour such as gate keeper's salary, time keeper's salary, works manager's salary etc.

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③ Indirect expenses such as factory rent, factory insurance, factory lighting etc.

* Office and Administration overheads:

① Indirect material used in a office such as printing and stationary material, brooms and dusters etc

Indirect labour such as salaries payable to office manager, office accountant, clerks etc.

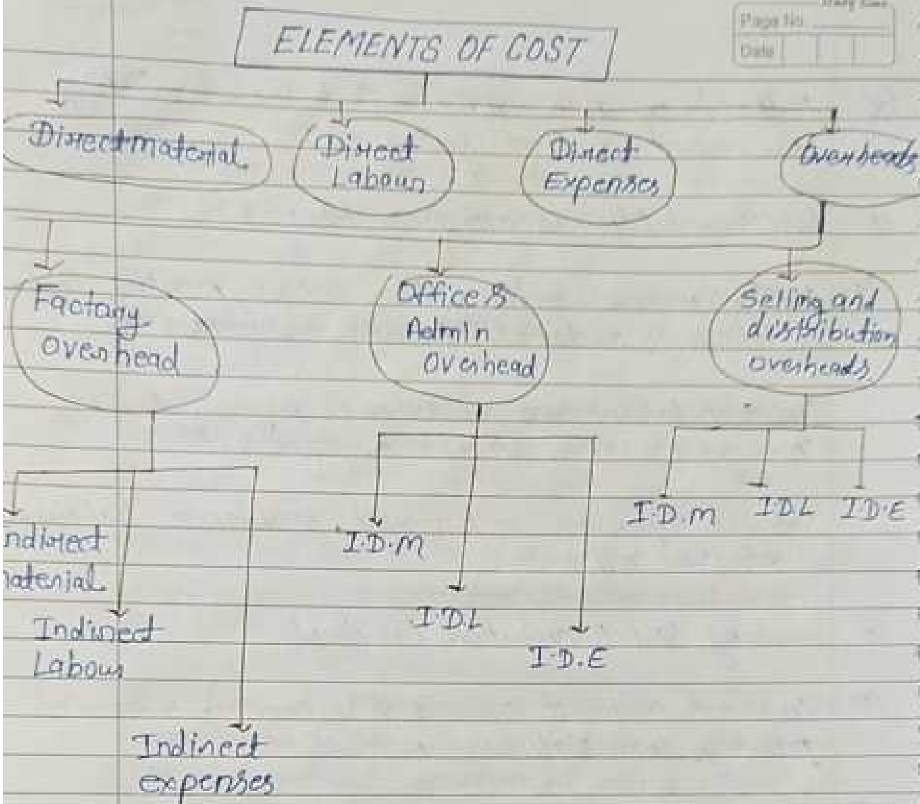
Indirect expenses such as rent, insurance, lighting, of the office.

* Selling and Distribution Overheads:

① Indirect material used such as packing material, printing and stationery material etc

② Indirect labour such as salaries of sales managers

③ Indirect expenses such as rent, insurance, advertising expenses etc.



Methods & Techniques of Costing

Costing - The techniques and process of determing cost

Job Costing - When Production is not highly repetitive and, in addition consist of distinct jobs or lots so that material and labour cost can be identified by order number, the method of job costing is used.

Ex – plant making, Specialised equipment

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* Contract Costing – A Contract is a big job while a job is a small contract.
This method is used where at different sites large scale contract are carried out.
Ex – Ship Builders, Printers, Building Contractors. Highway, Dam, etc.

Contract Costing does not in principles differ from job costing.
Job Contract Costing is also termed as Terminal costing.

* Cost Plus Costing → In contracts where besides 'cost' an agreed sum or percentage to cover overheads and profit is paid to contractor, the method is termed as cost plus costing.

* Generally used in case where government happens to the contractee.

* Cost + Sum %.

* Batch Costing – Where order or jobs are arranged in different batches after taking into account the convence of producing articles, batch costing is employed.
Cost of Group of product is ascertained.

Unit of cost is a batch / group of identical products, instead of a single job order or contract.
Ex. Pharmaceutical Industries.

* Process Costing - If a process product passes through different stages, each distinct and well-defined it is desired to know the cost of production at each stage.

In order to ascertain the same, process costing is employed under which separates account is opened for each process.

Suitable for - Chemical manufacturing, paints, food, soap making etc.

Raw material - Process - P_1 (Stage ①) → Process P_2 (Stage ②) → Finished Product

(6) Unit / Output / Single Costing -

In this method cost per unit of output / production is ascertained and the amount of each element constituting such cost is determined.

Where the products can be expressed in identical quantitative units and where manufacture is continuous this type of costing is applied.

Ex. Suitable in industries - Brick making, paper mill, cement manufacturing etc.

Operating Costing → This method is employed where expenses

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are incurred for providing services such as those rendered by bus companies, electricity companies or railways companies.
Total expenses regarding operation are divided by units as may be appropriate.

Ex. Bus Company - Total No. of Passenger Km.

(8) Departmental Costing - Ascertainment of cost of output of each department separately is the objective of departmental costing.

→ Where a factory is divided into a number of department this method is adopted.

(Techniques of Costing)

Costing Techniques are used by management only for controlling costs and making some important managerial decisions.

(1) (Marginal Costing)

- It is a technique of costing in which allocation of expenditure to production is restricted to those cost which arise as a result of production that is cost which vary with production.

- Fixed cost are excluded.
  Useful in manufacturing industries with varying level of output.

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* *Direct Costing* → The practice of charging all direct costs to operations, processes of products, leaving all indirect costs to be written of against profits in which in they arise. is called direct costing.

* *Absorption / Full costing* –
The practice of charging all costs both variable and fixed to operation products or process is called Absorption / Full costing.

* *Uniform Costing* – A technique where standardized principles and methods of cost accounting are employed by a number of different companies and firms is called Uniform Costing.

* This system thus facilitates inter-firm comparisons establishment of realistic pricing policies etc.

Material

Raw Material
Semi-finished Material
Finished Material

Direct Material
Indirect Material

Material Control
↓
Cost Accounting - Objective
↓
Cost Control

Material Control
Labour Control
Overhead Control

* Why it is necessary — Cost control is most important part of Cost of Product.

Material Control - The systematic control over the procurement, storage and usage of materials so as to maintain an even flow of materials and avoiding at the same time excessive investment in inventories.

M.C involves efficient functioning of following operations:-

① Purchasing of Materials —
Following point take into consideration:-
Centralised Purchasing.
Co-operation Required.
Close Liasion b/w Purchasing and finance department.
Proper Procedure
① Purchase Requistion
② Inviting Quotation
③ Preparing a schedule of Quotations
④ Approving the supplier
⑤ Purchase order.

② Receiving of Materials - The work of unpaking the goods and their verification is performed by the receiving department.

③ Inspection of Materials - The responsibility of verifying the weight, count or measurement is that of the receiving department. but responsibility to see that the goods have been received according to purchase order spefication is that of inspection Department.

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(4) Storage of Materials -
Efficient storage requires consideration of following points
Checking of material.
Classification and Codification of material
Putting materials into bins and racks.
Observance of levels.
Maximum level, Minimum level (Safety / Buffer)
Ordering " , Danger level , Economic Order Quantity.

(5) Issuing of Materials - Material required slip is made. A document which authories and records the issue of material for use.

(6) Maintance of Inventory Records - Two seats of records of material received issued or transferred are generally maintained.

They are - (I) By the storekeeper of the store.
Bin Cards , Store Material Control Record.

(II) By the Costing office
Store Ledger.

(7) Stock audit - A stock audit is the process of physically verifying a company's inventory to ensure it matches the records in the stock register.

Inventory System

(1) Periodic Inventory System - Quantity and value of inventory is found out only at the end of the accounting period after having physical verification of units in hand.

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This system does not provide the information about quantity and value of Material in hand on continuous basis.

Perpetual → Also called Automatic Inventory System
A method of recording store balance after every receipt and issue.
This system make available details about quantity value of stocks at all times.

Unit Second

Maximum Level – The large quantity of particular material which should be kept in store at any one time. Necessary to fix maximum level to avoid unnecessary blocking up of capital in inventories. Storage Sapace.

Maximum level = Re-order level + Re-order Quantity – (Minimum Consumption × Minimum Re-order Period)

Minimum Level – Lowest quantitative balance of materials in hand which must be maintained at all times so that assembly line may not be stopped on A/c of non availability of material.

Formula – Re-order level – (Average Rate of Consumption × Average time Required to obtain Fresh Delivery.

Re-ordering level – Point at which if the material in store reaches, further supplies must be ordered.

This level is fixed somewhere b/w maximum and minimum level.

Reorder level = Maximum Re-order Period × Maximum Usage

(4) Danger level - Level of stock below which the material should never be allowed to fall in normal circumstances. It is slightly less than the minimum level.

D. Level = Average Consumption × Average Delivery Time.

Questions

Two components A and B are used as follows

Normal usage	50 units per week each	
Minimum "	25 units " "	
Maximum "	75 " " "	
Re-order quantity	A	300 units
	B	500 "
Re-order periods	A	4 to 6 weeks
	B	2 to 4 weeks

Calculate for each component -

Re-order level.

Minimum level.

Re-order Level -

Maximum Re-order period × Maximum Usage.

Component - A : 6×75 = 450 units.

B : 4×75 = 300 units

Minimum level =

Re-order-level - (Average Rate of Consumption × Average Time Required to Obtain Fresh Delivery.

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$\frac{4+6}{2} = 5$

A : 450 - 50×5 = 200 units
B : 300 - (50×3) = 150 units → $\frac{2+4}{2} = \frac{6}{2} = 3$

Maximum level → Re-order level + Re-order Quantity - Minimum Consumption × Minimum Re-order Period.

A = 450 + 300 - (25×4) = 650 units
B = 300+500 - (25×2) = 750 units.

Average Stock level = $\frac{\text{Maximum Stock level} + \text{Minimum Stock level}}{2}$

A = $\frac{650+200}{2}$ = 425 units

B = $\frac{750+400}{2}$ = 575 units

Economic Order Quantity - Size of order which gives maximum economy in purchasing any materials. It is also referred to as optimum or standard ordering quantity.
Ex. Car Manufacturing Co.
Annual Requirement 100 tyre
Options — 100 , 50,50 , 25,25 25,25 , 20,20,20, 20,20

It is considering following cost.

Ordering Cost
Carrying Cost

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Ordering Cost - Cost of Placing an order and securing the supplies.
The more frequently the orders are placed and fewer the quantity purchased on each order and greater will be ordering cost and vice-versa.
Ex- 100 unit Required

20,20,20,20,20 ⟶ More Ordering Cost

50,50 ⟶ Less Ordering Cost

Carrying cost - Cost of carrying (storing) one unit of material. Ex. Losses, storekeeping cost, insurance premium etc.
Larger the volume of inventory, higher will be inventory carrying cost a.
Ex. 100 Unit Required.

20,20,20,20,20 ⟶ Lesser Carrying cost

50,50 ⟶ Higher Carrying Cost.

A balance is therefore struck b/w the two opposing factors and EOQ is determined at a level for which the aggregate of two cost is minimum.
EOQ ⟶ Carrying Cost + Ordering Cost is minimum.

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Economic Ordering Quantity :- The quantity of material to be ordered at one time is known as economic ordering quantity. This quantity is fixed in such a manner as to minimize the cost of ordering and carrying the stock. The total costs of a material usually consist of Total acquisition cost per unit of material is same whatever is the quantity purchased. It is usually excluded when deciding the quantity of a material to be ordered at one time. The only costs to be taken care of are the ordering cost and carrying costs which vary with the quantity ordered.

$$EOQ = \sqrt{\frac{2A \times B}{C}}$$

Machine Hour Rate Method—

Machine hour Rate means per hour operating cost of a machine. In other words, the amount obtained by diving the operating expenses of a machine during a specific period by the hours of use of machine during that period is called machine Hour Rate. According to ICMA The machine hour rate is an actual rate of cost apportionment for overhead absorption. which is calculated by dividing the cost to be apportioned or absorbed by the number ~~absor-ption~~ of hours for which a machine or machines are operated or expected to be operated.

$$\text{machine Hour Rate} = \frac{\text{Total Factory Overhead}}{\text{Total machine Hours}}$$

① Standing charges – Rent of Factory Rent, lighting, watchman salary, Tax and insurance, Cotton waste, cloth waste,

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(8) Operator's, Interest.

(2) Machine Expenses → Are machine running expenses.
(1) Depreciation on Machine =

$$\frac{\text{Cost of Machine + Installation Charges - Scrap Value}}{\text{Total Working Life in Hours.}}$$

(ii) Repairs and maintenance.
(iii) Power = Units per hour x Rate per unit.
Steam + Water

Merits -

(1) Accurate cost allocation - It allocates over head costs more accurately to jobs or products that consumer more machine time, providing a more equitable result than other methods.

(2) Considers the time factor - It accounts for the time a machine is actually used

(3) This method identifies the machine capacity.
(4) Supports decision-making
(5) Allows for comparison.

Demerits

(1) Not universally applicable
(2) Complexity
(3) Difficulty with estimation - when production was uncertain.

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④ Exclude other costs.
⑤ Increase the production cost.

* What are Imputed or Hypothetical costs :-
Imputed costs are costs that do not involve an actual cash outlay but are used for internal decision-making to get a more complete picture of a project's true profitability. These are not recorded in financial statements and are similar to or a form of opportunity cost representing the value of the next best alternative forgone.
Example - include the notional rent a company could charge for its own building or the interest a business owner could have earned by investing their capital elsewhere. Interest on capital. ~~Pay of~~
→ No cash outflow → Used for decision making
Not on financial statements, often similar to opportunity costs.

What is meant by Certified Work ?

It represents work done during the Period and also certified by architect.
The amount of work certified is base on Architect certificates.
It includes profit element since it is based on contract Price.
It is considered for calculating percentage of completion.
It provides the basis for claiming periodical Process payments form the contractee.

Work Uncertified — It represent work done during the Period, but not yet certified by architect.
Cost of work uncertified is based on the contractor's own estimate.
It is conservative cost estimate and does not include an Profit element.
It is not considered in calculation of % of completion.
It arises due to time gap b/w the dates of Pervious certificate to the financial year.

Abnormal Gain or Abnormal Effective —

Sometimes actual loss or wastage in a process is less then expected normal loss. In this case the difference b/w actual ~~cost~~ loss and expected loss is known as abnormal gain or abnormal effective.
It is the excess of actual production over normal output.
Abnormal gain is valued in the same manner as abnormal loss. The value of abnormal gain is debited to process A/c and credited to abnormal gain A/c. The value of scrap is debited to abnormal gain A/c and credited to ~~abnormal gain~~ loss A/c. finally abnormal loss A/c is closed by transferring the credit balance to Costing P&L A/c.

Memorandum Reconciliation: → A memorandum reconciliation account is a working paper in cost accounting, presented in a 'T' account format to bridge the gap b/w cost accounting profit. It explains the reasons for the differences. such as expenses or incomes appearing in only one set of books. by systematically adjusting a starting profit figure with debits for items that ↓ it and Credits for items that ↑ it This helps to ensure the accuracy of both accounting systems.

* Explains profit differences
* Checks for errors
* Verifies accuracy

Wages :→ Wages are compensation paid to an employee for their labour, typically on an hourly, daily or piecework basis. The principal methods of wage payments are the time rate system, where workers are paid for the time they work, and the piece rate system where they are paid based on the quantity of work completed. Other methods like the incentive wage system are also used to motivate employees through bonuses and other benefits.

Method of Wage payments –

1. Time Rate System → In this system, employees are paid a fixed rate for a specific period, such as an hour, day or week.

* The total earnings are calculated by multiplying the number of hours or days worked by the agreed upon rate.

* A worker who earns $ 15 per hour would receive $ 120 for an 8-hour workday (8 hours x $ 15/hour).

Provides financial security and is easy to administer.

② Piece Rate System – Under this system, workers are paid a fixed amount for each unit of work they complete, regardless of the time it takes.

* Earnings are calculated by multiplying the number of units produced by the rate per unit.

* If a worker is paid $2 for each item they assemble and they assemble 50 items in a day, their wages for that day would be $100 (50 items × $2/item.)

* Advantages – Encourages higher productivity, as earnings are directly linked to output.

* Disadvantage – Can lead to a focus on quantity over quality and the risk of accidents if workers rush their work.

* ③ Incentive Wage System – This is a broad category of payment plans that provide extra compensation for exceeding performance goals. It often combines elements of time and piece-rate systems.

* In addition to their basic pay employees receive bonuses or other incentives for achieving or surpassing targets such as higher production levels or better quality.

* A factory worker who completes their assigned production quota is paid their regular hourly wage, but also receives a bonus for every unit produced over the quota.

* Advantages - Motivates employees to be more productive and efficient.

* Disadvantages - Can be complex to administer and may not be suitable for all types of jobs.

Cost Accounting

It is the branch of accounting that helps to compute the cost of product and production in general. It is mainly accountable for fixed costs, overhead expenses, capital costs, selling price etc.

It accounts for the cost per unit of products.

It provides valuable information about efficiency.

It is frequently prepared and monitored accordingly.

Budgeting makes forecasting possible.

It only measures the profitability of a product or a service.

Financial Accounting

It is the branch of accounting that involves recording financial transactions effectively. In turn, it facilitates the process of analysing the financial standing and profitability of a firm in an accounting period.

It represents the financial position of a firm accurately.

It is not useful in determining the relative efficiency of workers, machinery, etc.

It is reported mostly at the end of an accounting period.

It cannot be forecasted.

It helps to measure the over

overall profitability of a firm.

Cost Accounting

① Cost accounting is followed only in manufacturing and service rendering concerns.
② Cost accounting records only transactions relating to manufacture and sale of goods and services.
③ Cost accounting is forward looking in character. It records estimates for the future.
④ Cost accounting records expenditure for each product. process or department.
⑤ Cost accounting discloses profit or loss of each product, process or department.

⑥ Cost accounting records expenditure in an objective manner that is according to the purpose for which they are incurred.

⑦ The purpose of cost accounting is to provide cost information to the management for planning, control and decision making.

⑧ Cost accounting uses several techniques to control the cost of production.

Financial Accounting

① Financial accounting is followed in all types of concerns.
② Financial accounting records all types of transactions of a concern.
③ Financial accounting is historical in character. It records only past transactions.
④ Financial accounting records total expenditure of the business.

(5) Financial accounting disclose profit or loss of the business as a whole.

(6) Financial accounting records expenditure in a subjective manner that is according to their nature.

(7) The purpose of financial accounting is to ascertain profit or loss and the financial position of the business.

Financial accounting is of little use in costcontrol.

The Scope of Cost Accounting -

- Cost fixed by Cost Accounting - The fundamental purpose is to calculate the total and per unit cost of product, services, processes, or projects. This involves classifying and allocating all expenditure, including materials labor and over heads -

  Cost Control.

  Cost Reduction

  Pricing Decisions.

- Managerial Decision - Making

  make or Buy -

  Product Profitability

  Expansion Guidance.

  Performance Evaluation.

  Inventory valuation → Raw material and work in progr

-: Methods of pricing of materials :-

* Pricing of Materials → Here, we first discuss about what is pricing of materials. Pricing method means that this is a way to fixing of price for a material product.

When materials are issued to production department, a difficulty arises regarding the price at which materials issued are to be charged. The same type of material may have been purchased in different lots at different times at several different prices. This means that actual cost can take on several different values and same method of pricing the issue of materials must be selected.

There are numerous methods of pricing issues. They may be classified as follows.

Methods of Pricing Materials issues

1. Cost Price Methods.

(a) FIFO (b) LIFO (c) Specific Price, Base Stock
(e) Highest In First-Out (HIFO)

2. Average Price Methods.

(a) Simple Average
(b) Weighted
(c) Periodic Simple
(d) Periodic Weighted

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(3) NOTIONAL PRICE METHODS -

Standard price Method.
Market " "
Inflated Price Method.

Cost Price methods - It is widely adopted method of pricing of materials. It takes the actual cost of the materials for its valuation. The Actual cost is the cost at which the material is originally purchased.
FIFO
LIFO

Specific Price - Specified Price Identifiable method
Sometimes materials are purchased to be utilized in a particular job or issues can be identified with a particular receipt. In these cases, the atual purchase price can be charged. This methods can be adopted when prices are stable or when the materials are covered by price control orders. This method has limited application only.

Base Stock - In almost all concerns, a minimum quantity of stock is always kept in store. A fixed minimum stock of the material is always maintained and is known as a safety or base stock".

Average Price Method - This method operates on the basis of calculation of averages. Under this method the materials in hand are so intermingled that the issues of materials are priced at average cost price of materials in hand, a new average is calculated whenever a fresh purchase is made.

Cost Control Techniques→

Definition of budget – A budget is a plan of action for a future periods. It simply means a financial plan expressed in terms of money. The budget pertaining to any of the activities of business is always forward looking. It means a leather bag into which funds are appropriated to meet the anticipated expenses.

Budgetary Control –

Sales Budget –	Material Budget
Purchase Budget	Cash Budget
Production Budget	Activity Base Budget
	Performance Budget

Standard Costing – Standard Costing is a technique of cost control. Standard costs are set for various elements of total cost. It makes a comparison of actual cost with standard cost.
Main objective of standard costing is controlling the cost.

Difference between Process Costing and Job Costing

Process Costing	Job Costing
Production is continuous. Production is for stock. All units produced are identical or homogeneous.	Production is according to customer's orders.

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There is regular transfer of cost of one process to subsequent processes.	Production is not for stock. Each job is different from the other.
Work in progress always exists.	There is no regular transfer of cost from one job to another. Work in progress may or may not exist.

Work Uncertified- It means work which has been carried out by the contractor but has not been certified by the architect. Sometimes, work which is complete remains uncertified at the end of the financial year. The reasons for the same may be.
Work not sufficient enough to be certified.
Work has not reached the stipulated stage to qualify for certification.

What do you mean by Prime Cost-

Prime cost is the sum of all direct costs incurred in manufacturing a product, including direct materials and direct labour.
It represents most basic cost of producing goods or services and is used to help set profitable prices by establishing the minimum selling price.

Contract A/c — A contract A/c is a financial record that tracks all transactions for a specific contract or long-term business relationship. In the construction industry — a unique contract A/c is opened for each building or road project, tracking all costs and revenues

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related to that specific project.

Overtime ⇒ Overtime is paid work done beyond normal hours, and its treatment depends on the reason for the overtime. Overtime is often more expensive due to higher wages and additional costs. Over time ~~of~~ wages are usually higher than normal wages, increasing labour costs.

Cost sheet- A cost sheet is a financial statement that provides a detailed breakdown of all costs incurred during the production of a product or services over a specific period.

Discuss the process of the calculation of Tender Price :-

(1) Analyze the tender documents and project requirements —
Read all tender documents to fully understand the project scope, specifications and any special conditions

For construction projects, conduct a site inspection to assess the actual conditions, potential challenges and logistical needs.

(2) Estimate and sum all costs - Direct Costs, Indirect Costs, Overheads, Taxes and Duties, Escalation Costs

(3) Include profit and risk management.

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(4) Finalize the tender price –

Tender Price = Direct Costs + Indirect Costs + Overheads + Taxes + Profit Margin.

What is contract A/c? Explain the rules for the calculation of Profit on incomplete contract: –

When a business enters into a contract that extends over several accounting periods. It becomes necessary to calculate profits on an incomplete contract. This is because the revenue and expenses of the contract are not fully realized until the contract is completed. In this blog we will discuss about that.

(1) Percentage of Completion Method – Under this method we divide the profit in proportion to the completion of the contract.

(2) Cost Recovery Method – Under this method the profit is recognized only when the costs of the contract have been fully recovered i.e. This means that no profit is recognized until all the costs of the contract have been recovered.

(3) Installment method –

(4) Zero Profit method –

In conclusion calculating profit on incomplete contracts requires a through understanding of the Nature of contract.

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What do you mean by Process Costing? Describe its general Principles and Salient Features.

Process costing is an accounting method used to determine the cost of production for mass produced, identical products made through a continuous flow of sequenti-al processes. It accumulates costs like materials, labour and overhead for each stage of production and then divides the total cost by the number of units produced to find an average cost per unit. Key features ~~o~~ —

Salient features-

Continuous Production - Production is an ongoing.
Homogeneous products - identical or very similar.
Process wise cost unit - The cost tracked at the process level.
Standardized processes - Processes are standardized.
Interconnected processes - The output of one production process become the raw material for the next process in the sequence.

Scrap and losses:- losses generated during the production

Periodic cost determination - Costs are typically calculated at the end of a monthly for each process.

General Principles -
Cost accumulation - Costs are collected for each specific process or operation during a given periods.

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What do you mean by cost Reconciliation Statement? Discuss the causes of difference b/w cost and financial profits:-

A reconciliation statement reconciles the different profits reported by cost accounting and financial accounting systems by identifying and adjusting for the causes of their differences.

Reconciliation of cost and financial A/c is process to find all the reasons behind disagreement in profit which is calculated as per cost accounts and as per financial accounts.

Causes of the difference b/w cost and financial profit.

Overheads - Cost accounts may use predetermined rates to absorb overheads while financial A/c record actual overheads.

Depreciation.

Valuation of Stock -

Non - financial items.

Non - cost items

Different bases - Cost accounts are based on a cost ledger, while financial accounts are prepared according to the law and accounting standards

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Cost allocation- Costs for materials, labour and manufacing overhead are assigned to individual process accounts

Average cost calculation- The total cost of a process is divided by the number of units produced to calculate the average cost per unit.

Output transfer - The finished product along with its cost is transferred from one process to the next similar to how raw materials are used.

Work in progress - The method accounts for partially completed units at the beginning and end of a period by using the concept of equivalent units.