

**CHAPTER 2****COST SHEET**

Cost Sheet of M/s \_\_\_\_\_ for the period/year ended \_\_\_\_\_

Units Produced = XX Units Sold = XX			
Particulars	Rs.	Total	Per Unit
<b>1. DIRECT COST</b>			
<u>Direct Materials Consumed</u>			
Opening Stock of Raw Materials	xx		
Add: Purchases of Raw Materials	xx		
Add: Carriage Inward	xx		
Less: Closing stock of Raw Materials	(xx)		
Less: Sale of Material scrap	(xx)	xx	xx
Direct Labour		xx	xx
Direct Expenses		xx	xx
<b>PRIME COST</b>		<b>XXX</b>	<b>XXX</b>
<b>2. INDIRECT COST</b>			
<u>Add: Factory Overheads</u>			
Expenses	xx		
Expenses	xx		
Less: Sale of factory scrap	(xx)	xx	xx
<b>GROSS FACTORY COST</b>		<b>XXX</b>	<b>XXX</b>
Add: Opening Stock of WIP		xx	-
Less: Closing Stock of WIP		(xx)	-
<b>NET FACTORY COST</b>		<b>XXX</b>	<b>XXX</b>
<u>Add: Office &amp; Administration Overheads</u>			
Expenses	xx		
Expenses	xx	xx	xx
<b>COST OF PRODUCTION</b>		<b>XXX</b>	<b>XXX</b>
Add: Opening Stock of Finished goods		xx	xx
Less: Closing Stock of Finished goods		(xx)	(xx)
<b>COST OF GOODS SOLD</b>		<b>XXX</b>	<b>XXX</b>
<u>Add: Selling &amp; Distribution Overheads</u>			
Expenses	xx		
Expenses	xx	xx	xx
<b>COST OF SALES</b>		<b>XXX</b>	<b>XXX</b>
Add: Profit		xxx	xxx
<b>SALES</b>		<b>XXX</b>	<b>XXX</b>

**Items Included In Carriage Inwards**

- Freight on Materials
- Carriage on Materials
- Dock Charges
- Import Duty
- Cartage
- Loading and Unloading Charges
- Octroi & Custom Duty

**Items Included In Direct Wages**

- Direct Labour
- Productive Wages
- Manufacturing Wages
- Factory Wages

**Items Included In Direct Expenses**

- Royalty on Production
- Special Designing charges
- Special Equipment hire charges
- Special Dyes
- Direct Power
- Sub-Contracting Expenses
- License fees for Special Orders

**Items Included In Factory Overheads**

**Factory Overheads is also known as Works Overheads, Production Overheads, Manufacturing Overheads**

- Factory Power
- Lighting and Heating
- Factory Manager's Salary
- Factory Supervisor's Salary
- Defective work (Cost of Rectification)
- Drawing and Designing Expenses
- Drawing Office Salaries
- Factory Rent, Rates and Insurance
- Technical Director's Fees
- Power and Fuel
- Motive Power
- Steam
- Coal, Gas, Grease and Water
- Excise Duty
- Depreciation on Plant and Machinery
- Depreciation on Factory Building
- Depreciation on Patterns and Patents
- Indirect Material
- Indirect Wages
- Repairs to Plant and Machinery
- Rent of Plant and Machinery

- Expenses on Trial Production
- Cost of training workers
- Normal Idle time wages
- Setup cost
- Inspection Cost
- Insurance Premium for stock of Raw Material
- Material handling charges
- Store Keeper's salary
- Haulage Expenses
- Cost of Rectification
- Loose Tools w/off
- Service Department Expenses

**Items Included In Office Overheads**

- Office Rent, Rates and Insurance
- Director's Fees
- Depreciation on Office Furniture
- Office Lighting
- General Expenses
- Printing and Stationery
- Legal Expenses
- Postage and Telephone Expenses
- Counting House Salaries
- Audit Fees
- Clerical Salaries and Management Expenses
- Cleaning and Maintenance Expenses
- Repairs and Renewal
- Refreshment and other sundry expenses

**Items Included In Selling and Distribution Overheads**

- Carriage outwards
- Salesmen salaries and commission
- Depreciation on Delivery Van
- Travelling Expenses
- Fees paid to Brand Ambassador
- Advertisement and Publicity Expenses
- Exhibition Expenses
- Trade Fair Expenses
- Showroom rent and expenses
- Demonstration Expenses
- Catalogue Printing
- Free Samples
- Fancy Packing Expenses
- Warehouse Rent
- Cost of tenders
- Cost of mailing literature
- Salaries of Packing Department
- Carriage on Sales
- Final Packing & Forwarding Expenses

**Classification of Important Items**

Royalty on Raw Material Consumed	DMC
Royalty on Production	DE
Technical Director's Fees	FOH
Director's Fees	O&A
Special Designing Expenses	DE
Designing Expenses	FOH
Haulage Expenses	FOH
Drawing Office Salaries	FOH
General Office Salaries	O&A
Counting House Salaries	O&A
Power	FOH
Direct Power	DE
Legal Expenses	O&A
Legal Expenses for criminal suit	Ignore
Purchases of Plant and Machinery	Ignore
Purchases of Office Furniture	Ignore
Purchases of Delivery Van	Ignore
Depreciation of Plant and Machinery	FOH
Depreciation of Office Furniture	O&A
Depreciation of Delivery Van	S&D
Warehouse Rent	S&D

**Notes relating to Cost Sheet****1. Quantity Information**

Opening Stock of Finished goods	XX
Add: Production (Units Produced)	XX
Less: Closing Stock of Finished goods	(XX)
Sales (Units sold)	XX

**Note: If there is no Quantity Information in the question, there will be NO PER UNIT COLUMN.**

**2. How to Find Per Unit Column**

- From Direct Materials consumed till Cost of Production, divide by units produced.
- From Cost of goods sold till Sales, divide by units sold.
- Opening stock of FG and Closing stock of FG will be divided by their respective units.

**3. Valuation of stock**

- Stock of Raw Material is valued at **Purchase price of Raw Materials**
- Stock of WIP is valued at **Factory Cost**
- Stock of Finished Goods is valued at **Cost of Production**

**4. There are only 3 incomes which are included while preparing Cost Sheet**

- Sale of Material Scrap
- Sale of Factory Scrap
- Sale of Finished goods (Sales)

**5. Expenses which are not included while preparing Cost Sheet****(a) Expenses not incurred for the product**

Donations, Charities, Gifts

**(b) Abnormal Losses**

Loss by fire, loss by theft, loss by any natural calamity,

**(c) Expenses incurred after earning profits**

Income Tax, Provision for tax

**(d) Appropriation of Profits**

Transfer to Reserves, Proposed dividend, Dividend Paid

**(e) Intangible Assets written off**

Goodwill, Patents, Trademark, Copyrights... w/off

**(f) Miscellaneous Expenditure written off**

Preliminary Expenses, Discount on issue of shares or Debentures, Underwriting Commission, Company Formation Expenses.... w/off.

**(g) Financial Expenses and Losses**

Interest on Loans or Debentures, Bad Debts, Provision for bad debts, Discount allowed, Loss on sale of FA, Legal Expenses for criminal suit, fines, Penalties, Damages etc

**6. Other Notes**

- **All Direct Cost are Variable Cost** i.e. Direct Materials, Direct Labour, Direct Expenses are always variable cost.
- But all Variable Cost are not direct cost. They can be Indirect Cost also.
- If **total cost remains same**, then the cost will be termed as **Fixed Cost**.  
If **fixed cost** is to be increased or decreased, it needs to be increased or decreased from **Total Cost**.
- If **cost per unit remains same**, then the cost will be termed as **Variable Cost**.  
If Variable cost is to be increased or decreased, it needs to be increased or decreased from **Cost per unit**.
- Production Increases, Total Variable Cost increases  
Production Decreases, Total Variable Cost decreases
- Production Increases, Fixed Cost per unit decreases  
Production Decreases, Fixed Cost per unit increases
- **Variable Cost** is known as **product cost**  
**Fixed Cost** is known as **period cost**
- In case of semi-variable overheads (partly variable and partly fixed), variable cost needs to be calculated by  $\text{Change in Cost} \div \text{Change in Production}$  and fixed cost will be the balancing figure.

**PART B: PRACTICAL**

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**Q. 1.** The following extracts of costing information relate to commodity A for the year 31.3.2019.

Purchase of Raw Material	✓	48,000
Direct Wages	✓	40,000
Stock on 1-4-2018		
of Raw Material	✓	8,000
of Finished Goods 1,600 quintals	✓	6,400
Stock on 31-3-2019		
of Raw Material	✓	6,800
of Finished Goods 3,200 quintals		
Work on cost (factory overhead)	✓	16,800
Work-in-Progress :		
1st April 2018	✓	1,920
31st March 2019	✓	6,400
Office and Administrative Overheads (Related to Production)	✓	3,200
Sales (Finished Product)	✓	1,20,000

Advertising, discount allowed and selling cost is Re. 0.40 per quintal. During the year 25,600 quintals of commodity were produced. Prepare Cost sheet.