

3. Elements of cost & cost sheet.

Page No.:

Date: / /

Elements of cost -

The constituent elements which build up the cost of unit are material, labour & equipments. These three elements of cost factor could then be further classified into direct & indirect categories. The term materials refer to all commodities supplied to an undertaking. Labour is an essential factor of production. All cost other than material costs & labour cost are termed as other Expenses.

Material -

The cost of commodities supplied to an undertaking.

A) Direct Materials :-

Which material directly related to the production activity also known as Direct Materials. Direct materials part of finished product.

e.g. Milk used in a dairy products, cotton used in a textile mill etc.

B) Indirect Material -

Which material can not directly related to the production activity also known as Indirect Materials. Indirect Materials are those which do not part of finished products.

e.g. Lubricants, oil, cotton wastes.

Labour :-

The cost of remuneration (wages) (Salaries, commission, etc) of the employee of an undertaking.

A) Direct Labour :-

All the workers who are directly engaged in production activity also known as direct labour. It is necessary to know how much & what work has been done by individual worker

e.g. Wages paid to Baker, shoe-makers, etc.

B) Indirect Labour :-

All the workers who are can not directly engaged in production activity also known as Indirect Labour.

The wages which cannot be allocated but which can be apportioned or absorbed by cost centers or cost unit.

e.g. wages paid to foreman, chageman, Supervisors etc.

* Other expenses :-

All costs other than material & labour termed as other Expenses.

A) Direct Expenses :-

All types of Expenses other than direct materials & direct labour also known as Direct Expenses. Direct expenses. Direct Expenses also known as chargeable Expenses.

e.g. Hire of special plant, cost of special Drawings, Designs, etc.

Indirect Expenses:-

All types of Expenses other than indirect material & indirect Labour also known as indirect Expenses.

These expenses are not charged directly to production.

e.g. Rent, rates & taxes, canteen expenses, lighting, power, fuel etc.

Prime Cost :-

All types of Direct Material, Direct labour & Direct Expenses also known as prime cost.

Overheads :-

All types of Indirect Material, Indirect Labour & Indirect Expenses also known as overheads.

* Methods of cost classification:-

① Elements - Material, Labour, Expenses.

② Functions -

i) Factory costs -

This is the cost which is incurred for the series of operations i.e. right from the supply of materials, labour & expenses incurred till the completion of production.

e.g. Store keeping expenses, factory lighting & power.

ii) Administration costs :-

This is the cost of running a concern i.e. Framing the policies, directing & controlling all the activities of the organisation other than Manufacturing & selling & Distribution Expenses.

e.g. office rent & taxes, Audit Fees etc.

iii) Selling & Distribution cost :-

Selling costs are those cost which are incurred for attracting the potential customers & retaining the existing customers.

e.g. cost of free samples, showroom exp. etc.

Distribution expenses are incurred for dispatching the products which are ready after packing.

e.g. packing costs, carriage outward.

iv) Research & Development cost:-

Research cost is defined as the cost of seeking new or improved products, applications of material or methods.

Development cost is defined as the cost of process which begins with the implementation of the decision to produce or new or improve methods & ends with the commencement of formal production of that product on by that method.

③ Identifiability:-

i) Direct cost:-

All the costs which can be conveniently allocated to cost unit or cost centre is known as direct cost.

ii) Indirect cost:-

It is a cost which is of general character & which cannot be identified with a particular unit of cost.

④ Behaviour:-

i) fixed cost:-

Fixed cost are constant in total Amount but fluctuate per unit as production change (variable)
e.g. Rent, Rates, & taxes, Insurance of factory, Municipal Taxes etc.

ii) Variable cost :-

When volume of output increase. total variable cost also increases & vice versa, but the variable cost per unit remain fixed.

e.g. Direct Material cost, direct labour cost, direct exp.

iii) Semi-variable cost :-

A cost containing both fixed & variable elements, which is therefore partly affected by fluctuations in the volume of output or turnover.

e.g. Telephone exp. Dep., repairs etc.

7) Controllability :-

i) Controllable cost :-

Those costs whose size can be influenced significantly by a particular level of authority in the organisation are termed as controllable costs.

e.g. Direct Material, direct labour etc.

ii) Uncontrollable cost :-

Those costs whose size cannot be influenced significantly by a particular level of authority in the organisation are termed as uncontrollable costs.

e.g. Rent, Rates, taxes, etc.

⑥ Normality :-

i) Normal cost :-

These costs are budgeted which are always anticipated & their value can be estimated in advance
e.g. Direct Material & labour

ii) Abnormal cost :-

These costs cannot be budgeted which are unanticipated & are never provided.

e.g. Loss by fire, accidents, strikes, etc

⑦ Time :-

i) Historical Cost :-

These cost are first incurred & then recorded & are available only when the production of a particular thing has already been done. Such costs are only of historical value & not useful for cost control purposes.

ii) Pre-determined costs :-

The costs which are ascertained in advance of production on the basis of a specification of all factors affecting cost.

⑧ Association :-

i) Product cost :-

It is described as the costs which are directly associated with the product. Thus, unit product is sold,

these costs provide no benefit. when the products are sold, the total product costs are recovered as an expense.

ii) Period cost:-

The costs which are associated with a particular accounting period. These are not related with the products delivered to the customers.

e.g. Rent, salaries of office staff.

Investment:-

i) Capital cost:-

A cost which is intended to benefit in future period. capital cost is treated as purchase of an asset.

e.g. Machinery, furniture, etc.

ii) Revenue cost:-

A cost which is incurred to benefit in the current period. Revenue cost is treated as an expenses.

e.g. Salaries, postage, printing etc.

Relevancy:-

i) Relevant cost:-

These costs which have a bearing or which have an effect on the decisions under the consideration of the Management.

ii) Irrelevant cost:-

Represent the costs which have no effect on the decision under the consideration of the Management. For instance, marginal cost is an example to relevant cost.