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INTRODUCTION

The term 'cost' occupy a very important place in cost accounting. In cost accounting costs has special meaning generally cost mean cost actually incurred but in cost accounting cost includes those expenses also which are not actually incurred. According to **C.I.M.A**, "Cost is the amount of expenditure incurred or attributable to a given things which may be a product, services or any other activity."

Definitions of Cost

According to **Gordon Shilling Law**, "Cost is the resources that have been or must be sacrificed to attain a particular objective."

Importance of Cost

- a) Cost data is useful in evaluating the efficiency of a concern
- b) cost data is one of the factors taken into account in the fixation of the price of a product, services or a job.
- c) cost data is helpful in choosing from among alternative course of action.
- d) cost is an essential factor for asserting the profit of a product or a job.
- e) Cost data about the product, service or job throws light on the wastage and losses that arise in the production And sale of a product or provision of service or performance of a job.

it is helpful in deciding whether to sell a product in a work- in- progress form or to process it further and sell it in finished

Elements of Cost

- 1) **Materials Cost**
- 2) **Labour Cost**
- 3) **Expenses**

Material Cost- Material cost refers to the cost of various items of materials, such a raw materials, components and spare parts, consumer stores, maintenance materials, office supplies, packing material etc. used by a concern. Further material cost analysed into

- **Direct materials cost:** Direct materials cost are refers to the cost of direct materials. Direct material those material which can be identified in the product and can be conveniently measured and indirectly charge to the product. Direct materials comprise the following:

- a) All raw material used in manufacturers of finished goods. Timber used in remove wooden furniture, clay used in breaks, bricks using house building, leather using shoes, floor used in bread, etc.
 - b) Materials specially purchased for a specific product, job, service, or process, example gum for bookbinding, starchpowder for dressing yarn, etc.
 - c) components or parts purchased outside of product in the factory and used for a particular job, order process like batteries for transistor radios, tyres for cycles, etc.
- **Indirect Materials Cost:** Indirect to material cost refers to the cost of indirect materials. Indirect material those material which cannot be conveniently in identifying the product. Further these are the material which do not normally form parts of any product, but are used for a consumer stores, repairs and maintenance materials, office supplies, etc. They include the following:
 - a) Stores or materials such as lubricant an cotton waste, bricks and cement used for us repairs and maintenance of machinery, buildings ET C
 - b) materials used by the service Department like powd powerhouse, boiler house, canteen etc
 - c) materials which two form parts of the finished product are not considered worthwhile to be treated as a direct material on account of their comparatively negligible cost e.g., thread an button used in dresses, nails and varnish using furniture ,etc.

Labour Cost

Labour means human efforts engaged in the process of production stop labor may be direct or indirect.

- **Direct Labour:** According to C.I.M.A., “ direct labor cost is that cost which can be identified with and allocated to a cost centers or cost units.Direct labor can easily be identified with production process. Directly labour is used in altering the construction, composition or condition of the product.Direct labor varies directly with production process.
- **Indirect Labour:** Indirect labor is a labor which is not directly engaged in the production but engaged to assist direct labor. Indirect labor cost is the cost other than direct wages cost stop example of direct labor our supervisory staff, storekeepers, for men, time keepers, watchman, etc.

Expenses

Expenses means cost other than material cost and labor costs. Expenses may be direct or indirect.

- **Direct Expenses:** Direct expenses are the expenses which can be identified with an allocated to cost units or cost centres as they are especially incurred for a particular product or processes example of direct expenses:
 - i. Cost for rectifying defective work
 - ii. cost of hiring special machinery or plant.
 - iii. Cost of special moulds, design and patterns.
 - iv. cost of patents and royalties.

- **Indirect Expenses:** Indirect expenses are the expenses which cannot be identified with and allocated cost units or cost centres as they are not specifically incurred for a specific product or process stop example our rent rates an insurance of factory, office stationary, advertisements , etc.

Overheads

Indirect elements of cost or indirect costs are known as overheads. overheads maybe added define as a cost which can are not directly chargeable to a production or which are traceable to any particular product, process or business segment but which are common to a number of different products, process all departments. On the basis of function, overheads may be classified as under:

- i. **Factory Overhead:** Factory overhead includes refers to all expenses other than direct materials cost, direct labor cost and direct expenses relating to a production incurred within the factory. Example of factory overheads are:
 - Power, such as electricity, cold steam, gas oil, ETC
 - factory lighting and heating end
 - Cost of indirect materials, such as lubricating oils, cotton waste, soaps, threads nuts, bolts,etc.
 - overtime wages of factory workers overtime wages
 - factory workers welfare expenses.

- ii. **Administrative overheads:** Administrative overheads refers to expenses incurred in formulating policies, planning and controlling the functions and motivating the personnel of an organisation in the attainment of its objective. They include indirect material cost, direct indirect labor cost, an indirect expenses connected with the general administration example of office and overhead are:
 - Salary of office clerks, office attendance, salary of managing directors, general manager's secretary, accountant, etc

- office lighting and heating
 - rent and rates of office premises repairs of office building and furnitures and equipments
 - Director fee, audit fee, office telephone charges, office posters and telegrams , bank charges, legal charges ,etc.
- iii. **Selling Overheads:** Selling over rates or selling expenses refers to all expenses incurred in securing an retaining customer for the commodities dealt in by a business stop they include the following
- Salary of sales manager , salary an Commission of salesman , selling Commission given to distribution and agents.
 - expenses including given training to salesman, advertisement and public publicity charges
 - cost of simple and free gift distributed, cost of catalog, price list,etc
 - expenses incurred for the demo demonstration of the working of the articles.
 - Showroom expenses, such as rent, insurance, lighting decoration, etc.
- iv. **Distribution Overheads:** Distribution overheads refers to all expenses incurred in handling the product from the time they are placed in the warehouse till they reach their destination they include the following
- Packing charges, loading expenses, salary of dispatch staff
 - warehouse rent, warehouse insurance, warehouse lighting, warehouse repairs, warehouse depreciation, etc
 - outward transport charges
 - cost of repairing and reconditioning empty container for reuse,etc.

Short Questions

1. What do you understand by direct expenses ?
2. What do you mean by overheads?

Long Questions

1. What do you understand by the term 'cost'? Explain the different element of cost.

References

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Thank You