

Chapter 5

Cost Sheet

Meaning of Cost sheet: Cost sheet is a periodical statement that reflects a detailed overview of the cost incurred on various components during the process of production. It is used to determine the cost of a cost object, i.e. product, service, or a cost unit. A cost sheet is a statement that is prepared periodically to show the various components of total cost for a product. It also shows data of the previous period for comparison.

Definition of Cost sheet: Cost sheet is defined by CIMA, U.K. as "a document which provides for the assembly of the detailed cost of a cost centre or cost unit."

Purposes

1. It reveals the total cost and cost per unit of goods produced.
2. It discloses the break-up of total cost into different components of cost.
3. It provides a comparative study of the cost of current period with that of the corresponding previous period.
4. It acts as a guide to management in fixation of selling prices and quotation of tenders.

Production Statement: The term Production Statement is used interchangeably with cost sheet. However the production statement is an expanded form of a cost sheet. In addition to cost elements, a production statement includes items of sales, stocks and profits. When the details of cost sheet or production statement are shown in a T-shape account, it is known as Production Account or Cost Statement and Statement of Cost and Profit.

Elements of Cost sheet: Elements are related to the process of manufacture that is the conversion of raw materials into finished products. Cost are normally classified into three basic elements namely materials, labour and expenses (overheads). By grouping the above elements of cost the following divisions of cost are obtained.

1. Prime Cost: The initial cost made for manufacturing a product, i.e., raw material, labour wages and other production related expenses, is termed as prime cost. Following is the equation for computing the prime cost:

$$\text{Prime Cost} = \text{Direct material} + \text{Direct labour} + \text{Direct expenses}$$

2. Factory Cost: The works cost is calculated by summing up the prime cost with the factory overheads and simultaneously adjusting the opening and closing stocks of work in progress. It can be denoted as:

$$\text{Factory Cost} = \text{Prime cost} + \text{Factory overheads (works cost)}$$

3. Cost of Production: The cost of production includes all the direct and indirect cost, including the material, labour and other expenses, i.e., production cost, factory cost and office or administration cost. The following formula denotes the computation of cost of production:

$$\text{Cost of production} = \text{Factory cost} + \text{Administrative overheads}$$

4. Total Cost: The final value of a product or service can be determined after adding all the selling and distribution expenses to the cost of production of goods sold. The formula to find out the total cost or cost of sales is:

$$\text{Total Cost} = \text{Cost of production} + \text{Selling and distribution overheads}$$

COST ACCOUNTING

If the sales price of the products or service is known, the following method can be used to determine the profit:

$$\text{Sales} = \text{Total Cost} + \text{Profit}$$

Format of Cost sheet

Simple Cost Sheet

Cost Sheet (or Statement of Cost) for the period.....		
	No. of units produced.....	
Particulars	Total cost	Cost per unit
	₹	₹
Direct Materials		
Direct Labour		
Direct (or Chargeable) Expenses		
Prime Cost		
Works Overheads		
Works Cost		
Office and Administrative Overheads		
Cost of Production		
Selling and Distribution Overheads		
Total Cost or Cost of Sales		
Profit or Loss		
Sales		

Cost Sheet with Opening and Closing Stock

Specimen Cost Sheet for the period.....		
Production units.		
Particulars	Total cost	Cost per unit
	₹	₹
Opening stock of raw materials	XXX	
Add: Purchases	XXX	
Add : Expenses on purchases	XXX	
	XXX	
Less : Closing stock of raw materials	XXX	
	XXX	
Cost of material consumed		
Direct wages		
Direct expenses		
Prime Cost		
Add . Factory overhead		
Add : Opening stock of work-in-progress		
Less: Closing stock of work-in-progress		
Factory or Works Cost		
Add : Administrative overhead related to production activities		
Cost of Production		
Add : Opening stock of finished goods		
Less : Closing stock of finished goods		
Cost of Goods Sold		
Add : Selling and distribution overhead		
Add : Administration overheads (General)		
Cost of Sales		
Profit (or Loss)		
Sales		

COST ACCOUNTING

Treatment of Stocks: Stocks may be of three types

1. Stock of Raw Materials: In cost sheet, materials consumed in production are shown. In calculating the value of raw materials consumed during the period, opening stock of raw material is added in purchases and the value of closing stock is subtracted from purchases. In the following example with assumed figures, the treatment of stock of raw material has been shown:

		₹
	Opening stock of raw materials	30,000
<i>Add:</i>	Purchases	80,000
		1,10,000
<i>Less:</i>	Closing stock of raw materials	17,000
	Cost of materials consumed	93,000

2. Stock of Work-in-Progress: This is the stock of semi-finished goods, i.e., the goods which are in manufacturing process. The cost of work-in-progress consists of cost of materials consumed, direct wages and a proportionate part of the factory overhead. Opening stock of work-in-progress is added to works cost and closing stock is subtracted from this figure. In the following example, figures have been assumed to show the treatment of the stock of work-in-progress.

		₹
	Direct materials consumed	93,000
	Direct wages	22,000
	Direct expenses	5,000
	Prime Cost	1,20,000
<i>Add:</i>	Factory overhead	24,000
		1,44,000
<i>Add :</i>	Opening stock of work-in-progress	14,000
		1,58,000
<i>Less:</i>	Closing stock of work-in-progress	8,000
	Works Cost or Factory Cost	1,50,000

3. Stock of Finished Goods: This stock is adjusted after the calculation of cost of production. The opening stock is added to and closing stock is subtracted from the cost of production. The resulting figure will be the Cost of Goods Sold. This is shown below, continuing the same assumed figures:

		₹
	Factory cost	1,50,000
<i>Add:</i>	Administration overhead	10,000
	Cost of Production	1,60,000
<i>Add :</i>	Opening stock of finished goods	30,000
		1,90,000
<i>Less:</i>	Closing stock of finished goods	22,000
	Cost of Goods Sold	1,68,000

COST ACCOUNTING

Items excluded from cost: The following items are of financial nature and thus not included while preparing a cost sheet

- Cash discount
- Interest paid
- Preliminary expenses written off
- Goodwill written off
- Provision for taxation
- Provision for bad debts
- Transfer to reserves
- Donations
- Income tax paid
- Dividend paid
- Profit or Loss on sale of fixed assets
- Damages payable at law
- Discount on issue of shares
- Appropriation to sinking fund

Exhaustive Cost Sheet (Detailed)

Exhaustive Cost Sheet (Detailed)		Units produced	
Particulars	Total cost ₹	Cost per unit ₹	
Opening Stock of Direct Raw Materials	
Add : Purchases	
Add : Carriage Inward	
Add : Octroi, Customs Duty and other expenses on purchases	
Less : Closing Stock of Direct Raw Materials	
<i>Cost of Direct Materials Consumed</i>	
Direct or Productive Wages	
Direct (or Chargeable) Expenses	
Prime Cost	
Add : <i>Works or Factory Overheads :</i>	
Indirect Materials	
Indirect Wages	
Leave Wages	
Overtime Premium	
Fuel and Power	
Coal	
Factory Rent and Taxes	
Insurance	
Factory Lighting	
Supervision	
Works Stationery	
Canteen and Welfare Expenses	
Repairs	
Haulage	
Works Salaries	
Depreciation of Plant & Machinery	
Works Expenses	
Gas and Water	
Drawing Office Salaries	
Technical Director's Fees	
Packing Cost	
Quality Control Cost	
Research and Development Cost	

(Contd...)

COST ACCOUNTING

Laboratory Expenses	...		
Works Telephone Expenses	...		
Internal Transport Expenses	...		
Less : Sale of Scrap	...		
Add : Opening Stock of Work-in-progress	...		
Less : Closing Stock of Work-in-progress	...		
Works Cost	...		
Add : <i>Office and Administrative Overheads (Related to Production):</i>	...		
Office Salaries	...		
Director's Fees	...		
Office Rent and Rates	...		
Office Stationery and Printing	...		
Sundry Office Expenses	...		
Depreciation and Repairs of Office Equipment	...		
Depreciation of Office Furniture	...		
Subscription to Trade Journals	...		
Office Lighting	...		
Establishment Charges	...		
Director's Travelling Expenses	...		
Postage	...		
Legal Charges	...		
Audit Fees	...		
Cost of Production	...		
Add : Opening Stock of Finished Goods	...		
Less : Closing Stock of Finished Goods	...		
Cost of Goods Sold	...		
Add : <i>Selling and Distribution Overheads :</i>	...		
Advertising	...		
Showroom Expenses	...		
Bad Debts	...		
Salesmen's Salaries and Expenses	...		
Packing Expenses	...		
Carriage Outward	...		
Commission of Sales Agents	...		
Counting House Salaries	...		
Cost of Catalogues	...		
Expenses of Delivery Vans	...		
Collection Charges	...		
Travelling Expenses	...		
Cost of Tenders	...		
Warehouse Expenses	...		
Cost of Mailing Literature	...		
Sales Manager's Salaries	...		
Sales Director's Fees	...		
Showroom Expenses	...		
Sales Office Expenses	...		
Depreciation and Repairs of Delivery Vans	...		
Expenses of Sales Branches	...		
Administration Overheads (General)	...		
Cost of Sales (or Total Cost)	...		
PROFIT	...		
Sales	...		

COST ACCOUNTING

Treatment of scrap: In certain manufacturing industries, scrap arises in the form of cuttings, trimmings, borings from metals or timber, etc. Scrap generally can be sold at a price. The realisable value of scrap is deducted from factory overheads or factory cost while preparing the cost sheet.

Meaning of Estimated Cost Sheet: Estimated cost sheet is prepared to show the estimated cost of products to be manufactured. In this cost sheet, cost of direct materials, direct wages and various types of overheads are pre-determined on the basis of past costs after taking into account the present conditions and also the anticipated changes in the future price level.

Meaning of E-tender: It is an electronic process of sending and receiving tenders. It uses online platforms for procurement of tenders. E-tendering makes a huge difference to the procurement process as it offers improved visibility and compliance. The entire process of tendering is completed online.

Assignment Questions

Section A

1. What is a cost sheet?
2. Define cost sheet.
3. What are the objectives of cost sheet?
4. What is e-tender?
5. What is the difference between cost of production and cost of goods sold?
6. How a sale of scrap is treated in cost sheet?

Section B

1. List five items of cost which are not included in cost sheet.