
Unit 3 □ Classification and Analysis of Costs

Structure

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3.1 Introduction

In the previous unit (No. 2) we have discussed about different types of costs and in the very first unit (No. 1) we have learnt about the objectives of Cost Accounting. One of the objectives being cost ascertainment, it appears to be imperative to identify the relevant costs for aggregation. Various analyses of costs are necessary to help management in making rational decisions. There may be a huge number of different items of cost relevant for an object; proper recording of all such costs may pose great difficulties. Classification of costs may ease out the problem to a great extent. Keeping this in mind, the contents of this unit have been sub-divided into five sections. This introductory section is followed by the *second* which deals with Classification of Cost. Section *three* discusses Analysis of Costs which is followed by two sections for conceptualization of some basic terms viz. Concepts of Cost Centre and Cost Unit in section *four* and Concepts of Profit Centre and Investment Centre in section *five*. The last section (section *six*) deals with Cost Sheet.

3.2 Classification of Costs

Cost data are used for different purposes. Depending upon the purposes viz. cost ascertainment, cost control, valuation of inventory, decision making, etc. different kinds of information are necessary. It requires conscious grouping of relevant items of

cost to serve specific purpose. The process of such combining or grouping of cost items according to sort of similarities or commonness among them is known as cost classification. Costs may be classified according to :

- i) Elements,
- ii) Behaviour (variability or fixity),
- iii) Functions and
- iv) Identification.

i) *Element wise classification* : The most common classification is based on the factors or elements for which costs are incurred. Accordingly, costs can be classified as :

- a) **Materials cost** i.e., the cost of commodities, other than fixed assets, which are consumed in the process of production and sale of any product.
- b) **Labour cost or Wages** i.e., the cost of human service used in the organization. It includes wages, salaries, bonuses, commissions, etc.
- c) **Expenses** i.e., the cost of the services other than human services used in the organization. Expenses, in effect, comprise all costs other than materials and wages.

ii) *Variability wise classification* : Changes in the volume of production may have dissimilar effects on different items of cost. Some costs vary directly with the volume of production i.e., they increase or decrease proportionately with the changes in volume while some other costs remain unchanged within a given range of production; there are yet some other costs that vary with the variation in production but not proportionately. On the basis of this dissimilar behaviour of costs, they can be classified into three categories :

- a) **Variable Costs** i.e., the costs which vary proportionately with the changes in the volume of production.
- b) **Fixed Costs** i.e., the costs which accrue in relation to the passage of time but remain unaffected by variation in the volume of production. Thus, fixed costs are mostly time-based. Salary, Rent, Insurance, etc. are common examples of fixed costs.
- c) **Semi-variable Costs** i.e., the costs which are partly fixed and partly variable. Depreciation, electricity expenses, telephone expenses, etc, are semi-variable type of costs.

iii) *Function wise classification* : There are four basic functions in any manufacturing unit. These are : Manufacturing or production, Administration, and

Marketing or Selling and Distribution. Costs can be classified based on the functions for which they are incurred. Accordingly, there may be following four types of costs:

- a) **Manufacturing Costs** i.e., the costs incurred for carrying out the manufacturing function. Therefore, all costs of materials, labour and services supplied to the factory for production and also for primary packing of products are known as manufacturing costs.
- b) **Administration Costs** i.e., the costs of management and of secretarial, accounting and administrative services are termed as administration costs. These are in no way directly related to production but are having an indirect relation only in the sense that production function can not be run without the help of these services. Salaries of office staffs and of management people, Rent and depreciation of office buildings and equipments, postage, stationery, office telephone and electricity expenses, etc. comes under this class of costs.
- c) **Marketing or Selling and Distribution Cost** i.e., the costs incurred for the products ex-factory till the products reach the hands of the customers. This cost can then be sub-divided into three components :

Selling Cost : It is the cost of securing orders for sale. Salaries, commissions, traveling expenses, etc. for salesman and sales staff, cost of ordering, sales room expenses, etc. are known as selling cost.

Publicity Cost : It is the cost of developing and capturing market for a product. It is also known as sales promotion cost.

Distribution Cost : It is the cost incurred towards movement of goods from factory into the hands of customers. Warehouse costs and transportation costs are the major components of distribution cost.

iv) *Identifiability wise classification* : When an item of cost is identifiable with or traceable to a production unit/centre it is referred to as its identifiability. On the basis of identifiability, costs can be classified into :

- a) **Direct Cost** : It refers to the costs which are directly identifiable with each unit of production or service or with a department or centre (known as cost centre—to be discussed later). Since element wise there may be three types of costs viz. material, labour, and expenses, all direct costs can, therefore, be sub-divided into :

Direct Materials : It has been defined in the I.C.M.A. terminology as “the cost of materials entering into and becoming constituent elements of a product or saleable service”. Therefore, the cost of any material—raw or semi-finished, spare parts and primary packing materials purchased and used specifically for any product, process or department constitute direct material cost.

Direct Wages : Wages paid or payable to labour employed for altering the construction, composition, conformation or condition of the product produced by an organization are direct wages; it must, however, be identifiable with the product concerned and must also be ascertainable in money terms.

Direct Expenses : All *direct* costs other than direct materials and direct wages are known as direct expenses. These costs must be specifically allocable to a unit of a product or a batch of a product or to a department or process. Examples of direct expenses are : hire charges or cost of special tool, patterns or designs; cost of patent, royalty, licence fees, etc.; fees for architects, surveyors, etc.

- b) **Indirect Cost** : Simply speaking, these are costs which are not directly identifiable with any product, department or process (treated as cost centre or cost unit) but can be apportioned to it/them. As in case of direct cost, all indirect costs can element wise be classified into the following :

Indirect Materials : These are the material costs which cannot be traced to the production unit or cost centre. Consumable stores like fuel, lubricating oil, cotton waste, etc. required for running and maintenance of plant and machinery, small tools and sundry stores for common use, are some examples of indirect materials.

Treating material costs of small value as direct or indirect is sometimes guided by convenience and by 'cost of costing' principle. For example, cost of materials order form or requisition form can though be identified and ascertained per copy and hence comes under direct material group, it is more convenient and less costly to treat such material costs as indirect.

Indirect Wages : Wages which can not be identified directly with production or service unit are known as indirect wages. Salaries of supervisors, foremen, inspectors, store keepers, maintenance workers, etc. are examples of indirect wages. Grouping of wages into direct and indirect may also be a matter of convenience as observed in case of materials.

Indirect Expenses : There may also be some expenses which are not directly identifiable with product or service unit. These are known as indirect expenses. Examples are : Rent, rates and taxes, General lighting, Depreciation, Routine maintenance, etc.

3.3 Analysis of Costs

After classification of costs, as above, costs may be analysed through a process of 'step-by-step aggregation' of different classes of costs with the ultimate objective of

ascertaining Total Cost and Profit or Loss. With that end in view, identifiability classification is adopted first. So, primarily costs are segregated into direct costs and indirect costs. All direct costs are, however, classified element-wise for aggregation. The aggregated direct cost is termed as *Prime Cost*. It may be mentioned that direct material cost is to be adjusted for both the opening and closing stocks and only the cost of direct material consumed is taken into account for aggregation. Similar are the cases of direct wages and direct expenses i.e., these are also to be adjusted for advance payments and outstandings.

All indirect costs are technically termed as *Overhead*. For the purpose of stepped-up aggregation, functional classification is used for indirect costs. *Manufacturing (or Production or Factory) Overhead*, which consists of indirect materials, indirect wages and indirect expenses incurred for manufacturing operation, is the first item to be added to Prime Cost. It gives us *Gross Factory Cost* or *Gross Works Cost* which when adjusted for opening and closing work-in-progress (semi-finished goods) leads to *Net Factory/Work Cost*. To the Factory or Works Cost is added *Administration or Office Overhead* to arrive at *Cost of Production*. Cost of Production is adjusted for both the opening and closing stocks of finished goods to get *Cost of Production of Goods Sold*. The last item of indirect cost to be added to Cost of Production of Goods Sold is *Marketing or Selling & Distribution Overhead*. So, finally we get *Cost of Sales* or *Total Cost*. *Profit or Loss* can then be easily computed by deducting Cost of Sales from actual *Sales*.

The structure of analysis of costs as described above is shown below :

Statement of Cost and Profit/Loss

		Rs.	Rs.
1. Direct Material consumed :			
Opening Stock		xxx	
Add Purchases		xxx	
Less Closing Stock		<u>xxx</u>	xxx
2. Direct Wages (Paid & Payable)	---	----	xxx
3. Direct Expenses (Paid & Payable)	---	----	<u>xxx</u>
4. PRIME COST (1+2+3)	---	----	xxx
5. Factory Overhead	---	----	<u>xxx</u>
6. GROSS WORKS COST (4+5)	---	----	xxx
7. Adjustment for Work-in-progress :			
Add Opening Work-in-progress		xxx	
Less Closing Work-in-progress	---	<u>xxx</u>	<u>xxx</u>
8. NET WORKS COST (6+7)	---	----	xxx
9. Administration Overhead	---	----	<u>xxx</u>

10. COST OF PRODUCTION (8+9)	---	----	XXX
11. Adjustment for Stocks of Finished Goods :			
Add Opening stock of finished goods	---	XXX	
Less Closing stock of finished goods	---	XXX	XXX
12. COST OF PRODUCTION OF GOODS SOLD (10+11)			XXX
13. Selling & Distribution Overhead	---		XXX
14. COST OF SALES (12+13)	---	----	XXX
15. Profit or Loss (either 16–14)	---	----	XXX
16. SALES (or 14+15)	---	----	XXX

3.4 Concepts of Cost Centre and Cost Unit

a) *Cost Centre* : The term ‘Cost Centre’ has been defined by the ICMA, London, as ‘a location, person or item of equipment (or a group of these) for which costs may be ascertained and used for the purposes of cost control’. The ‘location’, ‘person’, and ‘equipment’ as they have been used in the definition are organizational divisions created on the basis of convenience to accumulate costs. It may be mentioned that this division is different from the administrative division of an organization.

On the basis of the definition of cost centre, as above, cost centre can be divided into Impersonal and Personal cost centres. If the cost centre consists of either a location or an equipment or a group of these locations and/or equipment, it is an *Impersonal cost centre*. On the other hand, if the cost centre consists of a person or a group of persons, it is a *Personal cost centre*.

Cost centers can also be classified on the basis of functions as Production Cost Centre and Service Cost Centre. A cost centre, whether personal or impersonal, in which any production activity, either in full or in part, is carried on is termed as *Production Cost Centre*. If a cost centre renders services (e.g., Accounts department, Repairs & Maintenance department, etc.) to production departments or other service departments, it is known as a *Service cost centre*. There are organizations which earn revenues by marketing their services (e.g., Accounting and Audit firm, Law firm, etc.). The functional divisions, as stated above, would not suit such organizations; because there is neither any production centre nor all the cost centres are service centres in the sense of rendering services to other production or service centre/s within the organization. To make a desired distinction, some alternative terms like ‘*Support cost centre*’ or ‘*Utility cost centre*’ are used. Again, if a cost centre is created by grouping equipment and/or person engaged in similar operation it is termed as ‘*Operation cost centre*’ while if they are engaged in any *specific process* or a *continuous sequence of operations*, it is termed as ‘*Process cost centre*’. If any

person is given the charge (management responsibility) of a cost centre, that cost centre is termed as a 'Responsibility Centre'. The main distinction between a cost centre and a responsibility centre is that a cost centre is created for accumulating cost for cost ascertainment while responsibility centre aims at controlling costs by pinpointing responsibility on a person.

There is no standard as to the number and size of cost centres in an organization. It all depends on the nature and size of the business, the importance given on cost ascertainment and cost control, availability of information, etc. However, there must always be a balance between too few and too many cost centres. While overemphasis resulting in creation of too many cost centres may increase the cost of cost centre, inadequate number of cost centres (naturally bigger in size) may frustrate the very objective of accurate cost ascertainment and hence lacking cost control.

b) *Cost Unit* : The term 'cost unit' has been defined in the ICMA terminology as "a quantitative unit of product or service in relation to which costs are ascertained". Cost is measured in terms of single monetary unit (Rupee/s). But measuring cost of a product or service essentially requires relating the unit of cost (i.e., Rupee/s) to a suitable unit of that product (e.g., Number, Ton, Km, Cubic Meter, etc.) or service (e.g., Number of patients examined by a doctor, Number of clients served by an accountant, etc.). So, cost unit is always a combination of the units of cost and product/service (e.g., Rs./Ton, Rs./Km, Rs./Patient, Rs./Client, etc.). Practically, cost units are used like Rs. 1,000 per Ton, Rs. 100 per Patient, etc. Cost unit, therefore, means any unit used for meaningful expression of the cost of any product or service. In some cases cost unit based on single unit of a product or service like Ton, Km., Number of Patients, etc. fails to give a meaningful expression of cost of the product or service. For example, 'cost of carrying a passenger by a bus is Rs.5' does not carry the sense in full unless the unit of the distance (say, Km.) is combined with the cost unit 'Rs. Per passenger' to get 'Rs. Per passenger per Km or Rs. Per passenger-Km'. The latter type of cost units is termed as '*Composite Cost Unit*'.

3.5 Concepts of Revenue Centre, Profit Centre and Investment Centre

a) *Revenue Centre* : There may be some segments in an organisation the primary responsibility of which is generating revenues out of sales revenues. Though costs may be incurred in such segments, controlling costs may not be the responsibility of the manager of the segments. These segments of an organisation are termed as Revenue Centre. Manager of a sales department or an individual salesman may constitute revenue centre.

b) *Profit Centre* : It is a segment of an organisation in which there are both the revenues and the costs and the manager of the segment is responsible for profit which is function of revenues and costs.

c) *Investment Centre* : It has been defined as “a profit centre in which inputs are measured in terms of expenses and outputs are measured in terms of revenues, and in which assets employed are also measured, the excess of revenue over expenditure then being related to assets employed”. The person in charge of an investment centre is, therefore, responsible for costs, revenues and investments of the centre.

3.6 Cost Sheet

Cost sheet is a statement of cost of a cost centre or cost unit, in which sub-divisions of costs are arranged in logical order under different heads, prepared for the purpose of cost ascertainment, cost control and price fixation. Different sub-divisions (element wise, function wise, variability wise and nature wise) and heads (prime cost, works cost, cost of production, and cost of sales) of costs as discussed under ‘Analysis of Costs’ are used in Cost Sheet for presentation of cost. Cost sheet is a document prepared for internal use. Information on cost is reported to management through cost sheet.

A few illustrations on preparation of cost sheet are given below :

3.7 Problem-Solution

Problem 1 :

The following data have been extracted from the books of Get-together Company as on 31st December, 2004 :

Inventories (Opening)	Rs.		Rs.
Raw Materials	50,000	Office Equipments	20,000
Work-in-progress	1,20,000	Plant and Machinery	3,00,000
Finished Goods	1,00,000	Buildings	5,00,000
Sales	8,20,000	Direct Labour	1,50,000
Sales Return and Rebates	8,200	Indirect Labour	20,000
Materials Purchased	4,30,000	Factory Supervision	20,000
Materials Returned	20,000	Factory Repairs	12,000
Freight on materials	10,000	Heat, Light & Power	63,000
Miscellaneous Factory Expenses	16,500	Rates & Taxes	8,000
Sales Commission	20,500	Distribution Dept.—	
Sales Promotion	22,000	Salaries & Expenses	16,000
Interest on Borrowed Funds	4,000	Office-Salaries & Expenses	22,000

The following further details are available :

- i) Closing Inventories :
- ii) Raw Materials Rs. 80,000; Work-in-progress Rs. 1,40,000; Finished Goods Rs.1,15,000
- ii) Accrued Expenses :
Direct Labour Rs. 6,000; Indirect Labour Rs. 1,000; Interest on Borrowed Funds Rs. 2,000
- iii) Rates of Depreciation applicable :
Office Equipments 10%; Plant & Machinery 15%; Buildings 10%
- iv) Pattern of distribution of the following costs :
Heat, Light & Power—In the ratio of 7 : 2 : 1 among Factory, Office and Distribution
Rates and Taxes—50% each to Factory and Office
Depreciation on Building—In the ratio of 5 : 3 : 2 among Factory, Office and Distribution.

You are required to prepare a Condensed Profit & Loss Statement for the year ended 31st December, 2004 along with a schedule of Cost of Sales.

Solution 1 :

Schedule of Cost of Sales

Particulars	Amount Rs.	Amount Rs.	Amount Rs.
Raw Materials Consumed :			
Opening Stock		50,000	
<u>Add Purchases</u>	4,30,000		
<u>Less Returns</u>	20,000	4,10,000	
<u>Add Freight</u>		10,000	
		4,70,000	
<u>Less Closing Stock</u>		80,000	3,90,000
Direct Labour		1,50,000	
<u>Add Accrued Direct Labour</u>		6,000	1,56,000
PRIME COST			5,46,000
<u>Factory Overheads :</u>			
Misc. Factory Expenses		16,500	
Depreciation—			
Plant & Machinery	45,000		
Building (5/10 of 10%)	25,000	70,000	
Indirect Labour	20,000		
<u>Add Accrued</u>	1,500	21,500	
Factory Supervision		20,000	
Factory Repairs		12,000	
Factory Heat, Light & Power (7/10 x 63,000)		44,100	
Factory Rates & Taxes (50%)		4,000	1,88,100
GROSS WORKS COST			7,34,100

<u>Add</u> Opening Work-in-progress		1,20,000	
<u>Less</u> Closing Work-in-progress		1,40,000	(-) 20,000
NET WORKS COST			<u>7,14,100</u>
<u>Office and Administration Overhead :</u>			
Depreciation—Office Equipment	2,000		
—Building (3/10 of 10%)	<u>15,000</u>	17,000	
Office Heat, Light etc. (2/10)		12,600	
Rates & Taxes (50%)		4,000	
Office Salaries & Expenses		<u>22,000</u>	<u>55,600</u>
COST OF PRODUCTION			<u>7,69,700</u>
<u>Add</u> Opening stock of Finished Goods		1,00,000	
<u>Less</u> Closing stock of Finished Goods		1,50,000	(-) 50,000
COST OF GOODS SOLD			<u>7,19,700</u>
<u>Selling and Distribution Overhead :</u>			
Sales Commission		20,500	
Sales Promotion		22,000	
Depreciation on Building (2/10 of 10%)		10,000	
Heat, Light & Power for Distribution (1/10)		6,300	
Salaries & Expenses		<u>16,000</u>	<u>74,800</u>
COST OF SALES			<u>7,94,500</u>

Condensed Profit & Loss Statement for the year ended 31st December, 2003

	Rs.	Rs.		Rs.	Rs.
To Cost of Sales		7,94,500	By Sales	8,20,000	
To Interest on Borrowed Funds			Less Returns and Rebates	<u>8,200</u>	8,11,800
	4,000				
Add Accrued	<u>2,000</u>	6,000			
To Net Profit		<u>11,000</u>			
		<u>8,11,800</u>			<u>8,11,800</u>

Problem 2 :

A product of a company is being sold at Rs. 2000. The following data about the cost of the product are available :

Materials	50% of the cost of sales
Wages	30% of the cost of sales
Overheads	20% of the cost of sales.

It is anticipated that the prices of all the elements of cost will be increased as follows :

Materials	10%
Wages	5%
Overheads	30%

The only other information available is that the amount of profit will be decreased by 50% as a result of the increase in cost prices if the selling price remains unchanged.

You are required to compute the selling price that would maintain the same percentage of gross profit as at present and also to prepare a comparative statement showing the unit cost, profit and selling price at two situations.

Solution 2 :

i) Computation of existing percentage of gross profit on sales :

Let the amount of profit per unit be Rs. x.

$$\begin{aligned} \text{Therefore, Cost of Sales} &= \text{Selling price} - \text{Profit p.u.} \\ &= \text{Rs. } (2000 - x) \end{aligned}$$

Costs p.u. are :

$$\text{Materials : } 50\% \text{ of Cost of Sales} = \frac{1}{2}(2000 - x)$$

$$\text{Wages : } 30\% \text{ of Cost of Sales} = \frac{3}{10}(2000 - x)$$

$$\text{Overheads : } 20\% \text{ of Cost of Sales} = \frac{1}{5}(2000 - x)$$

The amounts of cost increases are :

$$\text{Materials : } 10\% \text{ of } \frac{1}{2}(2000 - x) = \frac{1}{20}(2000 - x)$$

$$\text{Wages : } 5\% \text{ of } \frac{3}{10}(2000 - x) = \frac{3}{200}(2000 - x)$$

$$\text{Overheads : } 30\% \text{ of } \frac{1}{5}(2000 - x) = \frac{3}{50}(2000 - x)$$

Total amount of cost increase

$$\begin{aligned} &= \frac{1}{20}(2000 - x) + \frac{3}{200}(2000 - x) = \frac{3}{50}(2000 - x) \\ &= \left(\frac{1}{20} + \frac{3}{200} + \frac{3}{50}\right) (2000 - x) \\ &= \frac{1}{8}(2000 - x) \end{aligned}$$

Decrease in profit = 50% of x = $\frac{1}{2}x$.

As per conditions given :

$$\frac{1}{8}(2000 - x) = \frac{1}{2}x$$

$$\text{or, } 250 - \frac{1}{8}x = \frac{1}{2}x$$

$$\text{or, } \left(\frac{1}{2} + \frac{1}{8}\right)x = 250$$

$$\text{or, } \frac{5}{8}x = 250$$

$$\text{or, } x = 250 \times \frac{8}{5} = 400$$

Therefore, existing profit p.u. = Rs. 400

And Percentage of profit on sale = $(\text{Rs. } 400 / \text{Rs. } 2000) \times 100 = 20\%$

Amount of costs are :

$$\text{Materials : } \frac{1}{2}(2000 - x) = \text{Rs. } 800$$

$$\text{Wages : } \frac{3}{10}(2000 - x) = \text{Rs. } 480$$

$$\text{Overheads : } \frac{1}{5}(2000 - x) = \underline{\text{Rs. } 320}$$

$$\text{COST OF SALES} \quad \underline{\underline{\text{Rs. } 1,600}}$$

ii) Comparative Statement of Unit Cost, Profit and Selling Price

Particulars	Existing Rs./Unit	Anticipated Rs./Unit
1. Elements of Costs :		
Materials	800	880(800 + 10%)
Wages	480	504(480 + 5%)
Overheads	320	416(320 + 30%)
2. Cost of Sales	<u>1,600</u>	<u>1,800</u>
3. Profit (20% on Sales i.e., 25% on Cost)	400	450
4. Selling Price	<u>2000</u>	<u>2,250</u>

Problem 3 :

The following data of a company for the month of July, 2005 are available :

	Rs.
Raw Materials : Opening	8,000
Closing	9,000
Direct Labour (150% of Factory Overhead)	22,500
Work-in-progress : Opening	10,000
Closing	12,000
Cost of Goods Sold	65,000
Finished Goods : Opening	20,000
Closing	25,000
Administration Expenses	2,000
Selling Expenses	3,000
Sales	80,000

You are required to prepare a Cost Sheet for the month of July, 2005.

Solution 3 :

Workings

Computation of Raw Materials Purchased

	Rs.	Rs.
Cost of Goods Sold		65,000
Add Closing stock of Finished Goods	25,000	
Less Opening stock of Finished Goods	<u>20,000</u>	(+) <u>5,000</u>
COST OF PRODUCTION		70,000
Less Administration Expenses		<u>2,000</u>
WORKS COST (NET)		68,000
Add Closing Work-in-progress	12,000	
Less Opening Work-in-progress	<u>10,000</u>	(+) <u>2,000</u>
WORKS COST (GROSS)		70,000
Less Factory Overhead (150% of Rs. 22,500)		<u>15,000</u>
PRIME COST		55,000

Less Direct Labour		<u>22,500</u>
RAW MATERIALS CONSUMED		<u>32,500</u>
Add Closing Stock of Raw Materials	9,000	
Less Opening Stock of Raw Materials	<u>8,000</u>	<u>1,000</u>
RAW MATERIALS PURCHASED		<u>33,500</u>

COST SHEET
For the month of July, 2005

Particulars	Amount Rs.	Amount Rs.
Raw Material Consumed :		
Opening Stock	8,000	
Add Purchases	<u>33,500</u>	
	41,500	
Less Closing Stock	<u>9,000</u>	32,500
Direct Labour		<u>22,500</u>
PRIME COST		55,000
Factory Overhead		<u>15,000</u>
WORKS COST (GROSS)		70,000
Add Opening Work-in-progress	10,000	
Less Closing Work-in-progress	<u>12,000</u>	(-) 2,000
WORKS COST (NET)		68,000
Administration Expenses		<u>2,000</u>
COST OF PRODUCTION		70,000
Add Opening stock of Finished Goods	20,000	
Less Closing stock of Finished Goods	<u>25,000</u>	(-) 5,000
COST OF GOODS SOLD		65,000
Selling Expenses		<u>3,000</u>
COST OF SALES		68,000
Profit (Balancing figure)		<u>12,000</u>
SALES		<u>80,000</u>

3.8 Questions

a) Long answer type

1. How can costs be classified? Give example for each such cost classification.
2. Explain the concepts of 'cost centre', 'cost unit', and 'responsibility centre'. Prepare an illustrative list of cost units suitably used in different industries.

b) Short answer type

3. Categorise the following expenses into direct and indirect :
- i) Cost of paint applied on a piece of furniture
 - ii) Cost of buttons used in a shirt
 - iii) Cost of thread used in making a shirt
 - iv) Cost of printing in the total cost of a book
 - v) Cost of Xeroxing
 - vi) Cost of fuel in a plate of meal
 - vii) Cost of shining shoes
 - viii) Depreciation on machine used in the manufacture of a product
 - ix) Cost of cloth in making a festoon
 - x) Salary of a factory supervisor
4. Write short notes on the following :
- a) Prime Cost, b) Indirect Wages, c) Semi-variable overhead, d) Cost of Sales, e) Work-in-progress.

c) Objective type

5. State which of the following statements are correct :
- i) Period costs are not considered as product cost.
 - ii) Total fixed cost does not vary with the variation in output while unit fixed cost does.
 - iii) 'Cost of Goods Sold' and 'Cost of Sales' are the same.
 - iv) Overhead costs are not identifiable with every production unit.
 - v) Entry fee at the Indian Museum of Rs.100 for every batch of 20 students or part there of is a variable cost.
 - vi) 'Cost unit' and 'Unit cost' are the same.
 - vii) A 'Cost Centre' may be a 'Responsibility Centre'.
 - viii) Administration cost is not relevant in ascertainment of cost of production.
 - ix) Prime Cost does not involve any part of administration cost.
 - x) Cost sheet gives us accurate cost of production though it is prepared before the production starts.
6. Classify the following expenses by *functions* and *behaviours* :
- i) Maintenance cost of machines
 - ii) Salary of a Foreman
 - iii) Depreciation on office building
 - iv) Running cost of a vehicle carrying all the employees of a manufacturing company.
 - v) Cost of samples.

3.9 Select Readings

Banerjee, B., *Cost Accounting*, World Press Pvt. Ltd.

Lal, Jawahar, *Cost Accounting*, Tata McGraw Hill Publishing Co. Ltd.

Iyengar, S.P., *Cost Accounting*, Sultan Chand & Sons.

3.10 Hints for Solution (for some of the questions)

3. (i) Indirect (ii) Direct (iii) Indirect (iv) Indirect (v) Indirect (vi) Indirect (vii) Indirect (viii) Indirect (ix) Direct (x) Indirect.

5. (i) Incorrect (ii) Correct (iii) Incorrect (iv) Correct (v) Incorrect (vi) Incorrect (vii) Correct (viii) Incorrect (ix) Incorrect (x) Incorrect.

6.	<u>Functional</u>	<u>Behavioural</u>
i)	Manufacturing	Semi-variable
ii)	Manufacturing	Fixed
iii)	Administration	Fixed
iv)	Common to all the functions	Fixed
v)	Selling & Distribution	Fixed.