

ADVANCED COST ACCOUNTING

(For Commerce classes of Undergraduate Students)

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PREFACE

This Text-Book of **Advanced Cost Accounting** is specially prepared for the B.Com., B.B.A. Students of Various Universities. It is prepared in accordance with the syllabus given in this Book.

I do not claim any originality in the subject-matter of this book. I have drawn immense material from many standard books on this subject. Yet, this book is original in the exposition and presentation of the subject-matter. The subject-matter has been dealt with exhaustively and in very simple language.

I express my profound gratitude to my well-wishers for their encouragement in the preparation of this book. I am also thankful to **United Publishers, Mangalore**, for bringing out this book.

I shall consider my efforts amply rewarded if this book is found useful by the teachers and the students.

Suggestions for improvement of this book will be gratefully accepted.

Mangalore,

B.S. Raman

SYLLABUS
ADVANCED COST ACCOUNTING

Unit – 1 : Output or Unit Costing :

Introduction- Statement of Cost- Preparation of Estimation - tenders and quotations.

Unit – 2 : Contract Costing :

Introduction-Contract account-profit on incomplete contracts - work-in-progress- Contractee's Account - Escalation Clause.

Unit – 3: Process Costing :

Introduction distinction between job costing and process costing, process losses; inter process profits, process accounts, Joint products and By-products - Difference between joint products: methods of assigning joint cost, accounting for By-products.

Unit – 4: Operating Costing :

Introduction: transport costing, standing charges, operating and running cost. Preparation of operating cost sheet, calculation of passenger kms/ton kms.

Unit – 5: Reconciliation of Cost and Financial Accounts :

Need for reconciliation, reasons for disagreement, reconciliation procedure, Problems on reconciliation.

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UNIT 1:

OUTPUT OR UNIT COSTING

Introduction :

Output costing or unit costing is also called **single costing** or **product costing**.

Output costing is the simplest of all the methods of costing.

Meaning of Output Costing:

According to the Terminology published by the Institute of Cost and Management Accountants, London, "Output costing is the basic costing method applicable where goods or services result from a series of continuous or repetitive operations or processes to which costs are charged before being averaged over the units produced during the period".

From this definition, it is clear that output costing or unit costing is a method of costing under which there is the costing (i.e., determination or ascertainment of the cost) of a single product which is produced by a continuous manufacturing activity.

As only a single product is costed (i.e., the cost of a single product is determined) under this method, this method is known as **single costing**.

This method is also called **output costing**, as cost is ascertained for the total output (i.e., total production) of a product.

This method is also known as **unit costing**, as not only the cost of the total output, but also the cost per unit of output is ascertained under this method.

Features of Single Costing or Output Costing:

Single costing or output costing has certain characteristic features. The important features of output costing are:

- (i) Single costing is the method of costing adopted in concerns where there is the production of a single product or a few grades of the same product, differing only in size, shape or quality, by a continuous process of manufacture, the units of production or output are identical and the cost units are physical and natural.
 - (ii) Under this method, the cost per unit of output, say, per ton, per barrel, per kilogram, per metre, per quintal, per bag, etc. is ascertained. The cost per unit of output is ascertained by dividing the total costs incurred on a product during a given period of
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time by the output (i.e., the total number of units of the product) produced during the period.

Where the products manufactured are of different grades, first, the costs of products are ascertained gradewise, and then, the total cost of each grade of the product is divided by the number of units of that grade so as to ascertain the cost per unit of each grade of the product.

- (iii) Equality of cost is an important feature of this method. That is, under this method, cost units, which are identical, will have identical cost.
- (iv) Under this method, the cost of a product is ascertained at the end of an accounting period.
- (v) Under this method, the cost information relating to a product may be presented in the form of either cost sheet or production account.
- (vi) This method is the simplest of all the methods of costing, in the sense that the cost collection (i.e., the collection of data about the cost or expenditure incurred on the production of the product) and the cost ascertainment (i.e., the determination of the total cost and the cost per unit of output) are quite simple.
- (vii) The cost per unit of output, determined under single costing, enables the management to make real comparison between different periods and between different firms within the same industry, as the unit of output is a common factor between different periods and between different firms within the same industry.

Industries Where Unit Costing is Adopted, and the Units of Cost Applicable to Those Industries:

The industries where the unit costing is adopted, and the units of cost applicable to those industries are as follows:

Industry	Unit of Cost
(a) Mines	(a) Tonne of minerals
(b) Collieries	(b) Tonne of coal
(c) Quarries	(c) Tonne of stone
(d) Oil-drilling	(d) Tonne of oil or barrel of oil
(e) Flour mills	(e) Sack of flour or quintal of flour

(f) Breweries	(f) Barrel of beer
(g) Paper mills	(g) Tonne of paper, ream of paper, kilogramme of paper or lb. of paper
(h) Textile mills	(h) Metre or yard of cloth
(i) Steel works	(i) Tonne of steel
(j) Cement factories	(j) Tonne of cement or bag of cement
(k) Sugar mills	(k) Tonne of sugar or quintal of sugar
(l) Brick works	(l) 1,000 bricks
(m) Spinning mills	(m) Kilogramme of yarn
(n) Lime kilns	(n) Tonne of lime
(o) Dairies	(o) Litre of milk
(p) Biscuit factories	(p) Kilogramme of biscuits or lb. of biscuits

Presentation of Cost Data Under Unit Costing:

The various items of expenditure collected through various sources and analysed under different heads of expenditure or elements of cost are presented under output or unit costing either through a cost sheet or statement of cost, or through a production account or a manufacturing and profit and loss account.

Cost Sheet, Cost Statement or Statement of Cost:

A cost sheet, cost statement or a statement of cost is a statement, prepared at a given interval of time, say, weekly, fortnightly, monthly, quarterly, half yearly or annually, showing the various elements of cost of a product produced, or service rendered or job done during the period in total as well as per unit of output, in an analytical, detailed and logical form. A cost sheet may also contain the details of the various elements of costs of the immediate preceding period. Sometimes, it may contain even the pre-determined standard costs of the various elements. The details of costs of the immediate preceding period and the pre-determined standard costs facilitate comparison and help in ascertaining inefficiencies and wastages and in taking up remedial steps.

A typical cost sheet provides information only about the various elements of cost making up the cost of production. But, in practice, a cost sheet may contain information not only about the various elements of cost making up the cost of production, but also the cost of goods sold, selling and distribution expenses, sales and profit or loss made during the period. Such a cost sheet is called an extended cost sheet or production statement or statement of cost and profit. The extended cost sheet, production statement or statement of cost and profit is prepared in two parts. The first part shows the various elements of cost making up the cost of production. The second part shows the cost of goods sold, selling and distribution expenses, sales and profit or loss.

A cost sheet is only a memorandum statement, and not an account. It does not form part of the double-entry system.

Form of Cost Sheet:

A cost sheet is prepared as follows:

Cost Sheet of
for the period ending

Elements of Cost	Units Produced.....	
	Total Cost	Cost per unit
	Rs.	Rs.
Direct materials		
(i.e., direct materials consumed):		
Opening stock of direct materials	
Add: Purchases of direct materials	
	
Less: Closing stock of direct materials	

Direct Wages
Direct Expenses
Prime cost
Add: Works overheads

Less: Value of scrap or value of defective work

Add: Opening work-in-progress

Less: Closing work in progress	.....	.....
Works cost	.....	.....
Add: Administrative overheads	.....	.....
Cost of Production	.....	.....
Add: Opening stock of finished goods	.....	.....

Less: Closing stock of finished goods	.....	.....
Cost of goods sold (i.e., cost of production of goods sold)	.....	.....
Add: Selling and distribution overheads	.....	.....
Cost of Sales or total cost	.....	.....
Add: Profit	.....	.....
Sales or selling price	.....	.....

Production Account or Manufacturing and Profit and Loss Account:

When information relating to the total cost of a product, the sales of goods and the profit or loss made during the period is presented in the form of an account with debit and credit sides on the double-entry principles, the account is called the Production Account or Manufacturing and Profit and Loss Account.

The production account or manufacturing and profit and loss account contains, besides the items of expenditure forming cost of production, the opening stock and/or closing stock of finished goods, if any, the selling and distribution expenses, the sales and the profit or loss made during the period.

The production account is, usually, divided into two parts. The first part reveals the total cost of production as well as the cost per unit. The second part reveals the cost of goods sold, the selling and distribution expenses, the sales and the profit or loss made during the period in total and per unit.