

**Cost:**

**As Noun:** the amount of expenditure incurred on or attributable to a specific thing or activity.

**As verb:** to Ascertain the cost of a specified thing or activity.

**Costing: The techniques and processes** of ascertaining cost is known as costing.

The process of costing involves

**Cost Allocation:** is a process whereby cost items are charged direct to a cost center or cost unit.

**Cost Apportionment:** Division of cost between two or more cost center on the basis of benefit received.

**Cost Absorption:** Process of Ascertaining the charge of indirect cost per unit of production or service.

**Cost Accounting:** Study of concepts, tools and techniques which helps in ascertaining and analyzing cost.

It is accounting of cost from the point at which expenditure is incurred or committed to establishment of its ultimate cost center or cost unit.

It involves preparation of statistical data, the application of cost control methods, and the ascertainment of profitability of activities carried out or planned.

**Cost Accountancy:** for cost control and profitability ascertainment. It includes costing and cost accounting.

**Cost control is the objective of cost accountancy** but

application of cost control lies in the domain of cost accounting.

Cost Control methods are **Budgetary control, standard costing and responsibility accounting.**

Profitability is potentiality to make profit.

**Features of Cost Accounting**

1. It is specialized branch of accounting
2. It is both art and science
3. Recognized as profession
4. Determination of various components of total cost
5. Use of statistical data
6. Helpful in management

**Scope of Cost Accounting**

1. Cost Classification
2. Cost recording
3. Cost allocation
4. Cost determination: preparation of cost sheet
5. Cost control: standard costing budgetary control, inventory control
6. Cost comparison:
7. Cost reporting
8. Cost reduction
9. Cost analysis: relationship between cost and various determinants of cost.
10. Cost Audit: examination of the cost accounting system adopted by the business.

**Fundamental principles of cost Accounting:**

1. Cost is related to its **cause**.
2. Cost is charged **after** it is incurred.
3. Abnormal costs are **excluded** from costing.
4. Past costs are not charged to **future** periods.
5. The concept of **conservatism** has no place in costing.
6. Based on **double** entry principle.

**Functions or Objects of Cost accounting:**

1. **Ascertainment of cost:** which is known as costing
2. **Cost Control:** to measure the efficiency of the cost centers.
3. **Cost Reduction:**
4. **Profitability Ascertainment.**
5. **Determination of selling price**
6. Providing a basis for business policy and decision making
7. Compliance of **statutory** requirement

**Types and Techniques of Costing**

1. **Historical Costing:** Ascertainment of cost **after they have been incurred**. Post-mortem costs.
2. **Standard Costing:** Comparing the standards with actual.
3. **Marginal Costing:** effect on profit by change in volume of sales.

4. **Direct costing:** the practice of charging all **direct costs to operations, processes, products** and leaving the indirect costs to be written off against profit.
5. **Absorption Costing:** Charging all costs (direct or indirect) directly to production, processes and products.
6. **Uniform costing:** use of same costing methods by several undertakings.
- 7.

## **ELEMENTS OF COST**

**Material Cost:** cost of material used for production of a product or services.

**Direct Material Cost:** cost of material directly attributable to a cost center. Like cost of procurement, insurance, timber in furniture manufacturing, clay in brick manufacturing

Direct material is also known as process materials, prime cost materials or productive materials.

**Indirect material cost:** which cannot be attributed to a cost unit or cost center. Which cannot be traced as a major part of the product but has been the major part of production process. Like, lubricating oil, fuel, cotton waste, small tools, stores used for repairs and maintenance. Thread, gum, nails etc. are used directly in a product but are treated indirect cost.

## **LABOUR COST:**

Payments made to the employees, temporary or permanent. Includes salaries all fringe benefits.

**Direct labour Cost:** also called process labour, prime labor.

**Indirect labour cost:** watchman, storekeeper, inspectors, Repairs and maintenance worker.

Examples: Wages of idle time, holiday, overtime wages etc. remuneration to repairmen, workmen compensation.

## **Expenses**

**Direct Expenses:** Cost other than material and wages attributed to specific cost center like freight, carriage, hiring charges for special plant, royalty to lesser.

**Indirect Expense:** directly identified to a particular job, process or work but are common to jobs or processes.

These includes: Factory expenses, Office and administration expenses, Selling and distribution expenses

## **OVERHEADS**

Includes Indirect material, Indirect labor and indirect expenses.

### **Classification of Overheads**

1. **Factory Overheads:** It includes indirect material, Indirect labor and indirect factory expenses. Indirect factory expenses include rent of the factory, power, lighting, heating, depreciation of the plant and machines, salaries of foreman, works manager etc. factory overheads are also called production overhead, works overhead, factory on cost or works on cost.
2. **Office and administration Overheads:** Indirect office and administration overheads including cost of planning and controlling and policy formulation. Salaries of office staff, Accountants, directors, office rent, postage stationary, telephone expenses etc.
3. **Selling and Distribution Overheads:**

## **Analysis of Total Cost**

Prime Cost: Direct Material + Direct Labor + Chargeable expenses

Works Cost: Prime Cost + Works Overhead

Office Cost: Works Cost + Office Overheads

Total Cost: Office Cost + Selling and Distribution Overhead.

## COST ACCOUNTANCY ONE LINERS

1. **Costs** that have been used up or consumed are called expired cost. **Expired costs** are reported as **expenses in profit and loss account**. These expenses are costs that have no future benefit such as insurance expenses.
2. **Costs** that have not yet **expired** are reported as assets in balance sheet.
3. **unexpired costs** are things such as fixed assets and inventory. They are on the balance sheet and are capitalized (depreciated). They will be eventually matched with future revenue. These are considered 'deferred' charges until they become an expense in the future.
4. Expired cost is recorded in **Profit & Loss A/c**.
5. Unexpired cost is recorded in **Balance Sheet**.
6. **Loss** is that portion of expired cost resulting from the decline in the service potential of an asset that generated no benefit to the firm.
7. **Cost center** is a location, person or item of equipment (or group of these) for which costs may be ascertained and used for the purpose of control.
8. **Profit center** is the segment of activity of a business which is responsible for **both revenue and expenses**. Responsibility center in which performance is measured on the basis of return on investment: **Profit center**.
9. A **profit center** is a **responsibility center** having **both revenues and expenses**. ... Controllable profits of a **segment** result from deducting the **expenses** under a manager's control from **revenues** under that manager's control. **Profit Centre is accountable for all the actions associated with the sales of goods and production**.
10. A **Cost Centre** is a department or a unit which supervises, allocates, segregates, and eliminates all sorts of the cost related to a company. The cost center prime work is to check the cost of an organization and to limit the unwanted expenditure the company may acquire.
11. **Revenue centre:** This center is accountable for initiating and monitoring revenue. The management does not have any control over the cost or investment but can monitor a few of the expenses in the marketing section. The production of the revenue center is calculated by analyzing the budgeted revenue with actual revenue and actual marketing expenses with budgeted marketing expenses.
12. **Personal cost center** consists of a group of persons like foremen, storekeeper, engineer etc.
13. **Impersonal cost center** is one which consist of a location or item of equipment or a group of these.
14. **Operation cost center** consists of persons or machines carrying out similar operations.
15. **Process cost center** consists of a process or a continuous sequence of operations.
16. Centres like maintenance department and power supply department which provide services to other departments of an organisation is called **Service cost centre**.
17. **Profit centers do not have separate profit targets**.
18. Segment or unit of an organisation having accountability to a higher authority for performance of function assigned and costs incurred is **Responsibility centre**.
19. A responsibility center in which inputs are measured in monetary terms and outputs not recorded is called **Expense Centre**. A responsibility Centre where performance is judged on the basis of costs incurred is called **Expense Centre**.
20. Cost incurred due to shortage of stock is known as **Out of stock cost or shortage cost**.

21. **Cost accountancy** is the application of costing and cost accounting **principles, methods and techniques** to the art, science and practice of cost control and the ascertainment of profitability.
22. The term **discretionary expense** refers to a cost that a business or household can get by without, if necessary. Discretionary expenses are often defined as nonessential spending or, in other words, wants rather than needs.
23. **An imputed cost/hidden/implicit cost** is a cost that is incurred by virtue of using an asset instead of investing it or undertaking an alternative course of action. An imputed cost is an invisible cost that is not incurred directly, as opposed to an explicit cost, which is incurred directly.
24. Depreciation on machinery is an example of **Imputed cost**.
25. Cost incurred even after shutting down of plant or temporary stoppage of production is **Shut down cost**.
26. Costs to be incurred to avoid the hampering of production is called. **Urgent cost**.
27. Costs which do not involve any cash outlay is called **Conversion cost**.
28. Cost incurred for production of a new product or improved method of production is **Replacement cost**
29. . Change in costs due to change in the level of activity is called **Differential cost**.
30. Incremental cost and decremental cost are classifications **Differential cost**.
31. When cost increases due to change in level of activity, such increase is known as **Incremental cost**.
32. Any cost ascertained after being incurred and has no use in cost control decisions are called **Historical cost**.
33. Predetermined cost based on technical estimate for materials, labour and overhead for a selected period of time and for a prescribed set of working conditions is known as **Standard cost**.
34. An estimate of expenditure for different phases of business operations for a period of time in future is called **Budgeted cost**.
35. Normal costs are generally **Uncontrollable**
36. Items of cost like wages, rent, etc. which involves cash payment to outsiders are **Product cost**.
37. A location, person or item of equipment for which costs may be ascertained and used for the purposes of cost control is known as **Cost Centre**.
38. A unit of quantity of product, service or time, in relation to which cost may be ascertained or expressed is known as **Cost Unit**.
39. **Cost Accounting** helps the management to eliminate inefficiencies caused by material wastage, use of obsolete machinery, improper planning etc.
40. The evolution of cost accounting took place because of **Limitations** of financial accounting.
41. The branch of accounting dealing with the classification, recording, allocation, summarization and reporting of current and prospective costs is known as **Cost Accounting**.
42. The term **Cost Accountancy** is comprehensively used to include various aspects such as costing, cost accounting, cost control, cost audit and budgetary control.
43. **Contract costing** is applied where production is carried out as per specific order and customer specifications.
44. The **Technique and Process** of ascertaining the cost is known as Costing.
45. The expenses which can be directly charged to jobs, products, processes, cost centers or cost units is termed as **Direct Cost**.

46. Which method of costing is suitable in case of mass production industries manufacturing standardized products, wherein raw materials pass through a number of processes in a particular sequence? **Process costing.**
47. **Transport—operating cost, toy – batch costing,**
48. Total cost plus profit is **Sales.**
49. Use of same costing principles and practices by several undertakings for cost ascertainment and control is called **Uniform costing.**
50. Which is a Reciprocal Services method of reapportionment of overheads in case service departments are mutually dependent? **Simultaneous Equation.**
51. Which method of reapportionment of overheads apportions costs of service departments only to production departments? **Direct Redistribution.**
52. The method adopted by builders and civil engineering contractors for jobs involving huge capital expenditure and long time for completion is called **Contract costing.**
53. Which technique of costing distinguishes costs into fixed and variable? **Marginal.**
54. . Time Booking is done by **Production department.**
55. According to CIMA, England **Cost sheet** is “a document which provides for the assembly of the detailed cost of a cost Centre or cost unit.”
56. **Work measurement** aims to determine the effective time required to complete the work.
57. **Time booking methods** are time and job card, job ticket, daily time sheet etc.
58. Certain costs, also known as Economic costs, which do not involve immediate cash payments are called **Implicit cost.**
59. Prime cost is the total of **All direct expenses.**
60. Overheads or on cost is the total of **All indirect expenses.**
61. Hypothetical costs which do not involve any cash outlay and used solely for the purpose of decision making are called **Notional costs/imputed cost.**
62. Imputed cost is same as **opportunity cost.**
63. Explicit cost: bahar chala jaye jeevan se. the cost incurred out of pocket. You have paid for them. Salary, rent, electricity bill
64. Implicit cost: No outflow required. Cost of resources that are already owned by the firm.
65. **Cost allocation:** The process of charging such costs which are directly identifiable with some products or departments to such cost centres .
66. **Cost Apportionment:** Distribution of costs which are not directly identifiable with any cost centre, amongst various cost centres on predetermined basis.
67. ‘Regulation by executive action of the costs of operating an undertaking, particularly where such action is guided by Cost Accounting’ is known as **Cost control .**
68. Conversion cost is calculated as Total cost of production –Direct materials.
69. Cost centres are created for **Control and fixing responsibility.**
70. Conversion cost excludes direct material.
71. Variable costs increase in total due to **Increase in volume of production.**
72. Common cost of facilities or services employed in the output of two or more simultaneously produced or otherwise closely related operations, commodities or services is called **joint cost.**
73. Costs which are collectively incurred for a number of cost centres and are required to be suitably apportioned for determining for determining cost of individual cost centres is **Common cost.**
74. In cement industry, the method of costing adopted is process costing.
75. Direct material is a **Variable cost.**
76. A Bill of Material serves the purpose of **Material requisition.**
77. Thread in garments is an example of Indirect **materials.**
78. Direct material cost is the cost of the raw materials and components used to create a product. The materials must be easily identifiable with the resulting product (otherwise they are considered to be joint costs). The direct material cost is one of the few variable

costs involved in the production process; as such, it is used in the derivation of throughput from production processes. Throughput is sales minus all totally variable expenses. Examples of direct materials are:

- a. The timber used to construct a house
- b. The steel included in an automobile
- c. The circuit board included in a radio
- d. The fabric used to assemble clothing

**79.** Primary packing materials are examples of **Direct materials**.

**80. A purchase requisition** is a formal document that is used when an employee needs to purchase or order something on behalf of their organization. This document informs the department managers or purchasing staff of the decision so the purchasing department can start the process of purchasing the requested products or services.

**81. A material requisition**, also known as a materials requisition form, or a material request, is a document used by the production department to request materials they need to complete a manufacturing process.

**82.** Purchase requisition for regular stock materials is prepared by **Storekeeper**.

**83. OnCost** = **non-productive cost**

**84. Burden** = **overhead burden**

**85. Loading** = **overhead expenses or charge**

## EXAMVEDA PART

1. **Warehouse rent is a part of distribution cost.** Distribution costs (also known as “Distribution Expenses”) are usually defined as the costs incurred to deliver the product from the production unit to the end user. It is a broad terminology and it includes several costs.
2. Indirect material scrap is adjusted along with **factory cost**. Factory cost refers to the total cost required to manufacture goods. This concept is the basis for several cost accounting analyses.
3. Tender is an estimation of selling price. Tender is used in response to Request for tender. **Tender = profit+ cost.**
4. Audit fess is a part of **administration overhead**.
5. Cost accounting concepts include all the following except **profit sharing**.
6. Cost unit of a sugar industry can be **per ton**.
7. Over time is actual hours being more **than normal time**. Overtime is the amount of time someone works beyond normal working hours.
8. Time keeping refers to time spent by **workers in the factory**. Time-keeping department is concerned with the recording of time of each worker engaged in the factory.
9. Labour productivity can NOT be measured by **comparing total wage and total output**. Labor productivity measures the hourly output of a country's economy.
10. **Bonus under Rowan** scheme is paid as a proportion of time saved to standard time. In the Halsey Plan, bonus is usually set at 50% of the time saved. It does not serve as a strong incentive. On the other hand, under the Rowan Plan, bonus is that proportion of the wages of the time taken which the time saved bears to the standard time.
11. Two rate are used to calculate wages under **Taylor's differential piece rate system**. Taylor's Differential Piece-Rate System was introduced by F.W. Taylor, who believed that the workers should be paid on the basis of their degree of efficiencies.
12. Generally, types of stores are classified into **three types**.
13. Discarded material substances having no value **is called waste**. Waste is defined as discarded material which has no value in normal use or for ordinary use.
14. **Legal cost on debt realization is not a selling overhead**. Selling expenses are those expenses which are incurred to promote sales and service to customers.
15. Idle capacity of a plant refers to the difference between maximum capacity and actual capacity. Idle capacity is the remaining amount of capacity left in a company after productive capacity and protective capacity have been eliminated from consideration.
16. ixed cost per unit decreases as production increases, because the same fixed costs are spread over more units.

17. **Telephone expenses** is an example of semi-variable cost. A semi-variable cost, also known as a semi-fixed cost or a mixed cost, is a cost composed of a mixture of both fixed and variable components.
18. Fire insurance of stock can be apportioned on the basis of value **of stock**.
19. Appropriate basis for apportionment of material handling charges is **material consumed**. Material handling costs are a crucial component of a manufacturing company's profit calculations.
20. **Recreation expenses in factory are apportioned on the basis of number of employees**. Canteen subsidy or expenses, pension, medical expenses, personnel department expenses, cost of recreational facilities. Expenses of wage department.
21. **Charging output with overhead at reasonable rate is called apportionment**. Distribution of an overhead cost to several departments or cost centers is known as apportionment of overheads.
22. **Comprehensive machine hour rate includes machine operator's wages**. Composite machine hour rate means the total variable expenses per hour plus the total fixed, constant or standing charges per hour not directly connected with the operation of the machine, but are the general factory overheads of the department.
23. **The type of loss that should not affect cost of inventories is normal loss**. The loss expected or anticipated prior to production is a normal process loss. It is thus called a standard loss. A provision for such a loss is made before starting production. Weight losses, shrinkage, evaporation, rusting etc. are the examples of normal loss. Normal loss increases the cost of production of the usable goods realized.
24. The expenses relating to a particular process is debited to that **process a/c**. It is credited to Process A/c and calculated as **a % on the input quantity**.
25. **Abnormal loss and its value are credited to process a/c**. Abnormal Loss both in terms of quantity and value is recorded by **Crediting Process a/c and; Debiting Abnormal Loss a/c**.
26. Classification and accumulation of costs by fixed and variable costs is of special importance **in operating costing**.
27. **Process cost is ascertained and recorded in separate ledger a/c**. Process costing is an accounting methodology that traces and accumulates direct costs, and allocates indirect costs of a manufacturing process. Costs are assigned to products, usually in a large batch, which might include an entire month's production.
28. **Batch costing is useful to determine economic batch quantity**. In each batch, there are a number of units. The ascertainment of economic batch quantity is very useful. Economic batch quantity may be calculated by using the formula meant for calculating Economic Order Quantity (EOQ) in case of material control.
29. **The basis for the payment of cash by contractee** under contract is work certified. During the period of contract, Contractee has to pay sums of amount to contractor especially where a contractor is engaged in a big and long term contract. This amount is paid on the basis of certification of work done by surveyors or architects on behalf of the Contractee, who certified the value of the work done by the contractor.
30. **Contract a/c is a nominal a/c**. Nominal Accounts are accounts related and associated to losses, expenses, income or gains.
31. **Operating costing is a method of costing**. Operating costing is a process and technique of accumulating and ascertainment of cost for providing a standardized service to the public or to an undertaking.
32. In goods transport service the cost unit is **cost per ton kilo meters**.
33. **Overhead cost is the total of all indirect costs**. Overhead costs refer to those expenses associated with running a business that can't be linked to creating or producing a product or service.
34. **Operating costing is suitable for service industries**. Operating costs are expenses associated with the maintenance and administration of a business on a day-to-day basis.
35. **Prime cost plus variable overheads is known as Marginal cost**. Marginal cost is the change in the total cost that arises when the quantity produced is incremented by one unit; that is, it is the cost of producing one more unit of a good.
36. Wages paid to a labour who was engaged in production activities can be termed as direct cost. A direct cost is a price that can be completely attributed to the production of specific goods or services.
37. **Classification of cost is useful to identify costs**. All the costs of a business can be classified into production costs, administration costs, finance costs, selling costs, distribution costs, research and development costs.

38. **The purpose of financial accounting is to provide information for assessing the profitability and financial position of the firm.** The general purpose of the financial statements is to provide information about the results of operations, financial position, and cash flows of an organization.
39. **Defectives can be rectified and made into good units.** The defective work report should draw details relating to department, process, defective unit's quantity, normal and abnormal defects, the cost of rectification etc.
40. **The stores keeper should initiate a purchase requisition when stock reaches Re-order level. Reorder level (or reorder point)** is the inventory level at which a company would place a new order or start a new manufacturing run.
41. **Direct cost incurred can be identified with each unit of output.** Direct costs (such as for labor, material, fuel or power) vary with the rate of output but are uniform for each unit of production, and are usually under the control and responsibility of the department manager.
42. **Costing refers to the techniques and processes of ascertainment of costs.** Costing is any system for assigning costs to an element of a business.
43. **Cost accounting was developed because of the limitations of the financial accounting.** The limitations of financial statements are those factors that a user should be aware of before relying on them to an excessive extent. The following are all limitations of financial statements: Dependence on historical costs. Transactions are initially recorded at their cost.
44. Multiple costing is a technique of using two or more costing methods for ascertainment of cost **by the same firm.** Multiple costing, also known as composite costing, is a type of accounting method used when goods are sold that contain several other processed parts, and these parts are costed differently.
45. Sale of defectives is reduced from **cost of production.** The sale value of scrap may be deducted from the cost of materials consumed or factory overhead.
46. **Depreciation of plant and machinery is a part of factory overhead.** Factory overhead is the costs incurred during the manufacturing process, not including the costs of direct labor and direct materials. Factory overhead is normally aggregated into cost pools and allocated to units produced during the period.
47. **Prime cost includes direct materials, direct wages and direct expenses.** Prime costs are a firm's expenses directly related to the materials and labor used in production. It refers to a manufactured product's costs, which are calculated to ensure the best profit margin for a company.



1. Factory overhead can be charged on the **basis of material cost**. Factory overhead is the costs incurred during the manufacturing process, not including the costs of direct labor and direct materials.
2. Office and administrative expenses can be charged on the **basis of prime cost**. Administrative expenses are the expenses that an organization incurs not directly tied to a specific function such as manufacturing, production or sales.
3. Job costing used in **printing works**. The purpose of any business is to make money, and job costing is the most effective way to ensure that occurs. In a job costing system, costs may be accumulated either by job or by batch.
4. A document which provides for the detailed cost centre and **cost unit is cost sheet**. Cost sheet is a statement in which the details of expenses incurred on a particular product or job, during a specific period are presented.
5. **Direct material is a variable cost**. Direct material cost is the cost of the raw materials and components used to create a product.
6. The most important element of cost in **manufacturing industries is material**. Material is the first and most important element of cost. In most of the manufacturing organisations, materials form the single largest component of cost.
7. Continuous stock taking is a part of perpetual inventory. Perpetual inventory is a method of accounting for inventory that records the sale or purchase of inventory immediately through the use of computerized point-of-sale systems and enterprise asset management software.
8. **ABC analysis methods of stock control aims at concentrating efforts** on selected items of material. ABC method of inventory control involves a system that controls inventory and is used for materials and throughout the distribution management.
9. **Material control involves purchase, storage and issue of material**. Materials control is the systematic control over the materials at all its stages procurement, storage and usage so as to help in maintaining regular and uninterrupted flow of the materials in the production pipeline.
10. **Material requisition is meant for supply of material from stores**. A materials requisition form is a source document that the production department uses to request materials for manufacturing process. The production manager usually fills out the materials requisition form and delivers it to the materials or storage department where all of the raw materials are stored.
11. **Perpetual inventory system involves bincard and stores ledger**. Perpetual Inventory System keeps a record of every now and then of materials. It comprises of Bin Card and Stores Ledger, to keep track of various items.
12. Average method of pricing the material issues is useful when **material prices are fluctuating**. Under the 'Average Cost Method', it is assumed that the cost of inventory is based on the average cost of the goods available for sale during the period. The average cost is computed by dividing the total cost of goods available for sale by the total units available for sale.
13. **Scrap is residue of material**. It is incidental residue from the materials used in manufacturing operations which is recoverable and measurable without processing.
14. **A goods receipt note (GRN)** is created to record the delivery of items from your suppliers. A GRN is created against an issued purchase order. When a GRN is created for an item, any pending item quantity for an approved indent request will be automatically issued.
15. **Bin card is maintained by stores department**. Store ledger is prepared by cost accounting department. Bin card is a record of quantity only. Store ledger is a record of quantities and values.
16. **Labour turnover is change in labour force**. Labour turnover may be defined as the number of workers replaced during a given period relative to the average labour force during the period. It is the number of workers who left the job during a period relative to the average labour force during the period.
17. **Idle time is time spent by workers off their work**. Idle time is unproductive time on the part of employees or machines caused by management or as a result of factors beyond their control. Idle time is the time associated with waiting, or when a piece of machinery is not being used but could be.
18. **In time rate system the workers are paid on the basis of hourly daily, weekly rate**. Under this method of wage payment, the workers are paid the wages on the basis of time.
19. **Time wages are paid on the basis of actual time**. In this system of wage payment, the workers are paid the wages on the basis of time as, per hour, per day, per week, per fortnight or per month etc. This system does not consider the production of the employees during this time.

20. **Differential piece wages mean different wages for different level of performance.** A differential piece-rate system is a method of wage payment in which after tests have set a standard time for any task assigned the worker gets a high piece rate for completing the job within the allotted time and lower piece rate for completing the job beyond the allotted time.
21. **Those cost which is incurred to prevent the labour turnover is known as preventive cost.** These are costs which are incurred to prevent excessive labour turnover. The aim of these costs is to keep the workers satisfied so that they may not leave the factory.
22. Normal idle time cannot be avoided. The main reasons for the occurrence of normal idle time are as follows: Time taken by workers to travel the distance between the main gate of factory and the place of their work. Time lost between the finish of one job and starting of next job. Time spent to overcome fatigue. Time spent to meet their personal needs like taking lunch, tea etc.
23. Cost of idle time arising due to non-availability of raw material is charged to **costing profit and loss account**. The cost of idle facilities for reasons such as trade depression, shortage of demand, etc. should be written off to Costing Profit and Loss Account.
24. **Wage sheet is prepared by payroll department.** The payroll or wage sheet is a consolidated list of workers, which shows the gross deductions and net wages payable to them.
25. **Time and motion study is conducted by engineering department.** It is a major part of scientific management (Taylorism). After its first introduction, time study developed in the direction of establishing standard times, while motion study evolved into a technique for improving work methods.
26. Under **Gantt's task and bonus plan** no bonus is payable to a worker if his efficiency is less **than 100%**. If a worker takes more time than the standard time to complete the task (i.e., his efficiency is below 100%), he is given wages for the time taken by him and if a worker takes the standard time to perform the task (i.e., efficiency is 100%), he is given wages for the standard time and a bonus of 20% on the wages earned.
27. **Halsey premium plan is individual incentive scheme.** Under Halsey plan minimum wages are guaranteed to every worker. A standard time is fixed for the workers. If the workers finish the work before standard time they are given bonus.
28. **There are three methods for calculation of labour turnover separation method, replacement method, flux method.**
29. **Merricks multiple piece rate system has three rates.** According to this plan, three piece rates for a job is fixed. None of these three piece rates are fixed below the normal level. These three rates are applied in the manner given below: Rates Bonus Incentive 1. Upto 83 1/3% Normal Rate 2. Above 83 1/3 % to 100% 110% of Normal Rate 3. Above 110% 120% of Normal Rate.
30. **Reorder level** = maximum consumption X maximum reorder period.
31. Overhead can be classified according to **function-wise** as manufacturing o/h, administration o/h and selling & distribution o/h.
32. Allotment of overhead incurred for a particular cost centre to that specific cost centre is **allocation**. Allocation and apportionment are accounting methods for attributing cost to certain cost objects for budgeting, planning, and financial reporting.
33. **Absorption means charging of overheads to cost units.** It means costs is absorbed by the production (or product units) during the period or charging each unit of a product with an equitable share of overhead expenses.
34. **Bad debt is an example of selling overhead.** The expenses incurred by an organization in carrying out its selling activities.
35. **Variable cost per unit remains constant.** Variable costs are the costs that change in total each time an additional unit is produced or sold. With a variable cost, the per unit cost stays the same, but the more units produced or sold, the higher the total cost. Direct materials are a variable cost.
36. **The process of allocating and apportioning** the costs on suitable basis to all the departments is primary distribution.
37. The process of redistribution of service department costs to production departments is **secondary distribution**.
38. Depreciation of plant can be apportioned on the **basis of plant value**.
39. Indirect materials can be apportioned on the **basis of direct material**. Indirect materials are materials used in the production process, but which cannot be linked to a specific product or job.
40. The plant and material stolen or material lost are considered **abnormal cost** and are transferred to profit and loss account.

41. Contract and job costing are more or less the same. Job is for short time; contract is for longer period of time.
42. Job costing is like **sewing of cloth**, contract is like contract for **making road**.
43. Retention percent. Work certified ka kuch part rok ke rakhenge.
44. % of work certified
- |                                     |   |
|-------------------------------------|---|
| a. Less than 25 % of work certified | = Nil   |
| b. Less than 50 % of work certified | = $\frac{1}{3}$ of profit earned * cash received/ WC  |
| c. If more than 50%                 | = $\frac{2}{3}$ of profit earned* cash received/ W.C. |
| d. More than 90 %                   | = estimated profit* cash received/CP                  |
45. The value of work certified is determined on the basis of total work done.
46. Total amount is not paid. Only a certain percentage of work certified to the contractor.
47. Out of the cash received some portion is transferred to profit and loss account for distribution to shareholder and the remaining part is left for reserve for work in progress.
48. Percentage of work completed is calculated on the basis of work certified to total contract cost.

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