

ACCPC401: BASIC PRINCIPLES OF COSTING

REQF LEVEL: 4

SECTOR: BUSINESS SERVICES

SUB-SECTOR: ACCOUNTING



LU I: IDENTIFY AND DESCRIBE THE COST RECORDING SYSTEM WITHIN AN ORGANIZATION

Learning Outcome I.1: Describe the nature of the organization's business transactions in relation to its accounting systems.

I.1.1. DEFINITION OF BUSINESS

BUSINESS: Businesses of whatever size or nature exist to make a profit

- ✓ **A business is** an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.

There are a number of different ways of looking at a business. Some ideas are listed below.

- **A business is** a commercial or industrial concern which exists to deal in the manufacture, re-sale or supply of goods and services.
- **A business is** an organization that uses economic resources to create goods or services which customers will buy.
- **A business is** an organization providing jobs for people.
- **A business** invests money in resources e.g. buildings, machinery, employees, in order to make even more money for its owners.

I.1.2. DESCRIPTION OF THE TYPE OF BUSINESS:

- 1. Merchandising Businesses:** A merchandise business sells merchandise. Good examples of merchandising businesses include retail clothing, grocery stores and bookstores.
- 2. Service Businesses:** A service business sells things that are not tangible. A service company does not stock inventory, but it may need to stock tools and supplies

3. Manufacturing Business: are the business of transformation raw material into finished goods

I.1.3. DESCRIPTION OF TRANSACTION PROCESS SYSTEM

Business transactions are the interactions between businesses and their customers, vendors and others with whom they do business.

The accounting definition of a business transaction, according to the online Business Dictionary, is "an economic event that initiates the accounting process of recording it in a company's accounting system

Learning Outcome I.2: Describe the purpose and structure of a costing system within an organization

I.2.1. DESCRIPTION OF THE PURPOSE OF COST ACCOUNTING

- **profitability analysis:** Profitability measurement is an important purpose of cost accounting. Profitability can be measured in a number of ways for example as a percentage to sale, profit percentage to capital employed, profit per unit of output and so on. The profitability information serves as guide to the management to make some strategic decisions regarding the introduction of new products and increasing or decreasing the volume of production
- **inventory valuation:** Cost accounting always considers the cost price of inventories.
- **cost control:** Cost accounting aims at improving profitability by controlling and reducing costs. For this purpose, various specialized techniques like standard costing, budgetary control and cost reduction are becoming increasingly important in the present scenario because of growing competition in the business world.

Cost accounting done with the purpose of control over cost with the help of costing tools like standard costing and budgetary control.

I.2.2. IDENTIFICATION OF GENERAL PRINCIPLES OF COST ACCOUNTING

Cash vs. Noncash Costs: Cash costs are those which represent actual monetary outlays. Noncash costs do not directly represent such outlays but are permissible deductions from revenue, the sole impact of which is to reduce the income tax liability (depreciation and depletion).

Sunk Cost: An expenditure that has already been made. It is the difference between the amount an asset is worth today and the worth shown by depreciation records, and only happens when the book value exceeds the present realizable value. It arises from over-estimation of the salvage value or economic life. They are irrelevant to a capital investment decision which must weigh only future benefits against future costs (They are the result of past expenditures and policies).

Marginal Costs and Benefits : Costs and benefits that are relevant to an investment decision.

(for example: allocated corporate overhead is not, because they would be incurred regardless of whether or not the new project is accepted).

Cost of Capital: Which is different from Capital Cost, is used to refer to the cost of raising funds for capital investment. It is expressed as a percent and is usually determined by combining the costs of specific sources of capital (debt and equity) into a single value based upon the firm's relative used of the various sources.

Opportunity Cost: Refers to the yield or rate of return foregone on the most profitable investment opportunity rejected by a firm. They are experienced when capital rationing constraints are imposed in the capital budgeting process

Cost Concept: It is a very important concept based on the Going Concern Concept. We book the value of assets on the cost basis, not on the net realizable value or market value of the assets based on the assumption that a business unit is a going concern. No doubt, we reduce the value of assets providing depreciation to assets, but we ignore the market value of the assets. The cost concept stops any kind of manipulation while taking into account the net realizable value or the market value. On the downside, this concept ignores the effect of inflation in the market, which can sometimes be very steep. Still, the cost concept is widely and universally accepted on the basis of which we do the accounting of a business unit.

I.2.3. MAIN STEPS FOR INSTALLATION OF A COSTING SYSTEM

Installation of a costing system

The purpose of cost accounting can be achieved only when an effective costing system is established. A costing system is designed and installed according to the requirements of a business enterprise. The costing system should be simple, economical and practicable.

The main conditions for an effective and successful costing system are described as under:

- ❖ There must be a proper system of stores and stock control
- ❖ There must be co-ordination and co-operation among the staff members of the organization
- ❖ The wages procedure must be properly and satisfactorily. Labor cost should be charged to the respective jobs accurately.
- ❖ Some standardized printed forms must be used for recoding the receipts and issue of materials, recording labor hours worked and wages calculations and other activities of the organization.
- ❖ Overheads must be recorded accurately and these must be charged to the respective production departments and absorbed to units produced or cost units.
- ❖ Costing department must be established and duties and responsibilities of cost accountant should be clearly defined.
- ❖ Cost and financial accounts should be reconciled easily in order to reveal differences between them and obtain the same profit.

OBJECTIVES TO BE ACHIEVED

- Study the product

- Study the organization
- Deciding the structure of cost accounts
- Selecting the cost rates
- Introduction of the system
- Follow up

LEARNING OUTCOME 1.3: DESCRIBE THE RELATIONSHIPS BETWEEN THE COSTING AND ACCOUNTING SYSTEMS WITHIN THE ORGANISATION

Definition of accounting system:

Accounting Systems There are two systems of accounting followed:

Single Entry System

Double Entry System

Single entry system: is an incomplete system of accounting, followed by small businessmen, where the number of transactions is very less. In this system of accounting, only personal accounts are opened and maintained by a business owner.

Double entry system of accounts: is a scientific system of accounts followed all over the world without any dispute. It is an old system of accounting

Under the double entry system of account, every entry has its dual aspects of debit and credit. It means, assets of the business always equal to liabilities of the business.

Assets = Liabilities

If we give something, we also get something in return and vice versa.

COMPARISON OF COST ACCOUNTING AND FINANCIAL ACCOUNTING

Point of Differences	F i n a n c i a l A c c o u n t i n g	C o s t A c c o u n t i n g
M e a n i n g	Review of transactions is part of financial accounting. We make financial statements through these transactions. With the help of financial statements, we analyze the profitability and financial position of a company.	Cost accounting is used to calculate cost of the product and also helpful in controlling cost. In cost accounting, we study about variable costs, fixed costs, semi-fixed costs, overheads and capital cost.
P u r p o s e	Purpose of the financial statement is to show correct financial position of the organization	To calculate cost of each unit of product on the basis of which we can take accurate decisions.
R e c o r d i n g	Estimation in recording of financial transactions is not used. It is based on actual transactions only.	In cost accounting, we book actual transactions and compare it with the estimation. Hence costing is based on the estimation of cost as well as on the recording of actual transactions.
C o n t r o l l i n g	Correctness of transaction is important without taking care of cost control.	Cost accounting done with the purpose of control over cost with the help of costing tools like standard costing and budgetary control.
P e r i o d	Period of reporting of financial accounting is at the end of financial year.	reporting under cost accounting is done as per the requirement of management or as-and-when-required basis.
R e p o r t i n g	In financial accounting, costs are recorded broadly.	In cost accounting, minute reporting of cost is done per unit wise.

Fixation of Selling Price	Fixation of selling price is not an objective of financial accounting.	Cost accounting provides sufficient information, which is helpful in determining selling price
Relative Efficiency	Relative efficiency of workers, plant, and machinery cannot be determined under it	Valuable information about efficiency is provided by cost accountant.
Valuation of Inventory	Valuation basis is 'cost or market price whichever is less'	Cost accounting always considers the cost price of inventories.
Process	Journal entries, ledger accounts, trial balance, and financial statements	Cost of sale of product(s), addition of margin and determination of selling price of the product

COMPARISON OF COST ACCOUNTING AND MANAGEMENT ACCOUNTING

POINT OF DIFFERENCE	COST ACCOUNTING	MANAGEMENT ACCOUNTING
Deals with	Ascertainment allocations Apportionment and accounting aspect of cost	The effect and impact cost in the business
Base	It provides a base for management accounting	It is derived from both cost accounting and financial accounting
Role	It is helpful in collecting data for management	It has greater degree of relevant and objectively as management accountant clear ideas of the types of cost
Status	Cost accounting after management account	Management accounting senior in position to cost accounting
Scope	It does not include financial accounting tax , planning and tax accounting	Management accounting includes financial and cost accounting tax , planning And tax accounting

LEARNING OUTCOME 1.4: IDENTIFY SOURCES OF INCOME AND EXPENDITURE INFORMATION FOR HISTORIC, CURRENT AND FORECAST PERIODS

Description of income and expenses

- a) **Income:** are the amount received for the business
- b) **Expense:** Some costs are actual, such as raw material cost, freight cost, labor cost, etc. Some expenses are attributable to cost. To earn revenue, some expenses are incurred like rent, salary, insurance, selling & distribution cost, etc. Some expenses are variable, some are semi-variable, and some of fixed nature.

Identification of Types of income

- **Earned income:** Income derived from goods sold, services rendered, and work performed. It includes revenue, wages, salary, bonuses, commissions, tips as well as pension and annuities based on income previously earned. Normally, earned income attracts lower tax rates than the unearned income such as dividends and interest.
- **Portfolio income:** **Portfolio income** is **income** from investments, dividends, interest and capital gains. ... **Portfolio income** does not come from passive investments and is not earned through regular business activity. Typically, **income** from interest on loaned money is not considered **portfolio income**.
- ✓ Royalties received from property held for investment is also considered portfolio income.
- **Passive income:** **Passive income** is earnings derived from a rental property, limited partnership or other enterprise in which a person is not actively involved. As with active **income**, **passive income** is usually taxable. However, it is often treated differently by the Internal Revenue Service (IRS)
- **Passive income** is income resulting from cash flow received on a regular basis, requiring minimal to no effort by the recipient to maintain it.
- The U.S. [Internal Revenue Service](#) categorizes income into three broad types, [active income](#), passive income, and [portfolio income](#).^[1] It defines passive income as only coming from two sources: rental activity or "trade or business activities in which you do not materially participate."^{[2][3]} Other financial and government institutions also recognize it as an income obtained as a result of capital growth or in relation to [negative gearing](#). Passive income is usually [taxable](#).

Identification of Types of expenditure

- ✓ **Capital Expenditure:** this is the expenditure incurred in the purchase of fixed assets and the additions to the fixed assets.
 - Are expense used on increasing the value or the number of fixed assets.
 Example: the purchase of land, purchase buildings and equipment.
- ✓ **Revenue Expenditure:** this consists of expenditure incurred in one period of account the full benefit of which is consumed in that period.
 - Is expense used for running business day to day?
- ✓ **Deferred revenue expenditure:** is an **expenditure** which is **revenue** in nature and incurred during an accounting period, but its benefits are to be derived in multiple future accounting periods.

LU II. RECOGNIZE THE COMPONENTS PARTS OF A COST RECORDING SYSTEM AND HOW IT OPERATES

Learning Outcome 2.1: Identify materials, labour and expenses and explain how they are classified and recorded.

- a) **Direct Material:** are those materials which become part of the finished goods, subject to the proviso that the expense involved in tracing the cost is worthwhile. It is

material that can be traced to a particular product (cost unit) and cost Centre and becomes part of the finished product.

- b) **Indirect Material:** are those materials which are not become delicately part of the finished goods, subject to the proviso that the expense involved in tracing the cost is worthwhile. It is material that can be traced to a particular product (cost unit) and cost Centre and becomes part of the finished product.
- c) **Direct Labour:** are those labour costs which are applied to convert the direct materials into the finished goods, also subject to the proviso that the expense involved in tracing this cost is worthwhile.
- d) **Indirect Labour:** are those labour costs which are not directly applied to convert the direct materials into the finished goods, also subject to the proviso that the expense involved in tracing this cost is worthwhile
- e) **Direct Expenses:** are those expenses which can be traced directly to the product being manufactured.
- f) **Indirect Expenses:** are those expenses which cannot be traced directly to the product being manufactured.
- g) **Overhead**
 - **Indirect**
 - **Direct**
- h) **Factory Overhead:** it includes all indirect costs which are connected with the manufacture of a product. It is also known as manufacturing overhead or works overhead, works on cost or factory overheads. Together direct wages and factory overheads make conversion cost
- i) **Administration Overhead:** these are the overheads incurred in the general management and administration of the enterprise.
- j) **Selling Overhead:** *selling overheads* are incurred in promoting sales and securing orders
- k) **Distribution Overhead:** include all expenditure incurred from the time the product is complete and put in storage for dispatch until it reaches customers

CLASSIFICATION OF COSTS:

- **By Nature:** In this type, material, labor and overheads are three costs, which can be further sub-divided into raw materials, consumables, packing materials, and spare parts etc.
- **Material cost:** The materials directly contributed to a product and those easily identifiable in the finished product are called direct materials.
For example, paper in books, wood in furniture, plastic in water tank, and leather in shoes are direct materials. They are also known as high-value items.
Other lower cost items or supporting material used in the production of any finished product are called indirect material. For example, nails in shoes or furniture.
- **Labor cost:** Any wages paid to workers or a group of workers which may directly co-relate to any specific activity of production, supervision, maintenance,

transportation of material, or product, and directly associate in conversion of raw material into finished goods are called direct labor.

Wages paid to trainee or apprentices does not comes under category of direct labor as they have no significant value.

- **Overheads:** Indirect expenses are called overheads, which include material and labor.

Overheads are classified as:

- ✓ Production or manufacturing overheads
- ✓ Administrative expenses
- ✓ Selling Expenses
- ✓ Distribution expenses
- ✓ Research and development expenses

BY DEGREE OF TRACEABILITY OF THE PRODUCT

Direct and indirect expenses are main types of costs come under it. Direct expenses may directly attributable to a particular product. Leather in shoe manufacturing is a direct expenses and salaries, rent of building etc. come under indirect expenses.

BY CONTROLLABILITY:

- ✓ **Controllable:** These are controlled by management like material labor and direct expenses.
- ✓ **Uncontrollable:** They are not influenced by management or any group of people. They include rent of a building, salaries, and other indirect expenses.

BY RELATIONSHIP WITH ACCOUNTING PERIOD

Classifications are measured by the period of use and benefit. The capital expenditure and revenue expenditure are classified under it. Revenue expenses relate to current accounting period. Capital expenditures are the benefits beyond accounting period. Fixed assets come under category of capital expenditure and maintenance of assets comes under revenue expenditure category.

BY ASSOCIATION WITH THE PRODUCT

There are two categories under this classification:

- ✓ **Product cost:** Product cost is identifiable in any product. It includes direct material, direct labor and direct overheads. Up to sale, these products are shown and valued as inventory and they form a part of balance sheet. Any profitability is reflected only when these products are sold. The Costs of these products are transferred to costs of goods sold account.
- ✓ **Time/Period base cost:** Selling expenditure and Administrative expenditure, both are time or period based expenditures. For example, rent of a building, salaries to employees are related to period only. Profitability and costs are depending on both, product cost and time/period cost.

BY FUNCTIONS

Under this category, the cost is divided by its function as follows:

- ✓ **Production Cost:** It represents the total manufacturing or production cost.
- ✓ **Commercial cost:** It includes operational expenses of the business and may be subdivided into administration cost, and selling and distribution cost.
- ✓ **Administration cost:** this is general administrative cost and includes all expenditure incurred in formulating the policy, directing the organization and controlling the operations of an undertaking, which is not directly related to production and selling and distribution functions. Examples are office rent, postage, legal expenses, accounts office expenses, audit fees, etc.

BY CHANGE IN ACTIVITY OR VOLUME

Under this category, the cost is divided as fixed, variable, and semi-variable costs:

- ✓ **Fixed cost :** It mainly relates to time or period. It remains unchanged irrespective of volume of production like factory rent, insurance, etc. The cost per unit fluctuates according to the production. The cost per unit decreases if production increases and cost per unit increases if the production decreases. That is, the cost per unit is inversely proportional to the production.
- ✓ **Variable cost:** Variable cost directly associates with unit. It increases or decreases according to the volume of production. Direct material and direct labor are the most common examples of variable cost. It means the variable cost per unit remains constant irrespective of production of units.
- ✓ **Semi-variable cost:** A specific portion of these costs remains fixed and the balance portion is variable, depending on their use.

L O 2.2: DESCRIBE THE COST BY NATURE.

2.2.1: Description of costs:

- **Material Cost:** Design of product should encourage to find out possibility of cheaper raw material as a substitute, maximum production, less quantity etc.
- **Labor Cost:** Design of product may reduce time of operation, cost of after-sale service, minimum tolerance, etc.
- **Overheads:** Indirect expenses are called overheads, which include material and labor.

Overheads are classified as:

- ✓ Production or manufacturing overheads
- ✓ Administrative expenses
- ✓ Selling Expenses
- ✓ Distribution expenses
- ✓ Research and development expenses

L O 2.3: IDENTIFY THE TYPES OF COST AND PROFIT CENTRE

2.3.1: Description of cost Centre

Cost center: refers to a particular area of activity and there may be multiple cost centers in an organization. Every cost center adds some cost to the product and every cost center is responsible for all its activity and cost. A cost center may also be called a department or a sub-department.

2.3.2: Description of profit Centre

Profit Center: Profit centers are inclusive of cost centers as well as revenue activities. Profit centers set targets for cost centers and delegates responsibilities to cost centers. Profit centers adopt policies to achieve such targets. Profit centers play a vital role in an organization

2.3.3: Identification of cost Centre:

- ✓ **Cost Centre**
- ✓ **Production and Service Cost Centre:** A department where all activities refer to product is called a product department. When the centers render their services to a product department for its smooth functioning, they are called service cost centers
- ✓ **Process Cost Centre:** The same kind of activity is done in an operation department. In a process cost center, as the name suggests, different kinds of processes are involved

2.3.4: Identification of profit Centre Personal and Impersonal

- ✓ **Profit Centre:** is that cost Centre which not only incurs costs but also yields revenue. For e.g. Selling and distribution department
- ✓ **Investment Centre:** is a unit of the organization in respect of which a manager is responsible for capital investment decisions as well as revenue and costs.

L O 2.4: DIFFERENTIATE THE METHODS OF CODING DATA

2.4.1: Description of different methods of coding data:

- ❖ **Straight Numbering Method:**
- ❖ **Number Blocks**
- ❖ **Memoric Method**
- ❖ **Decimal Method**
- ❖ **Field Method with Numerical Codes**
- ❖ **Combination of Symbol and Numbers**

L.O 2.5: IDENTIFY THE DIFFERENT TYPES OF STOCK

2.5.1: Description of types of stock:

- **Centralized stock:** when materials are kept in one central warehouse and these are issued from one central point only.

Advantages of central store

1. Smaller stocks are needed
2. Less staff required

3. Paper work is reduced
4. Control of stock level is easy and simple
5. Better security measures can be introducing
6. Less risk of duplication of items of stock

Disadvantages of central stock

1. Higher transport cost and increased handling
 2. Possibility of breakdown of transport vehicles
 3. Inconvenience to personnel
 4. Increased fire risk
 5. Delays in supplying material to branches and departments at distant places.
- **Decentralized stock:** when materials are held and issued by sub stores in each department or branch.

Advantages of central stock

1. less transport cost and increased handling
2. impossibility of breakdown of transport vehicles
3. Inconvenience to personnel
4. Increased fire risk
5. Not Delays in supplying material to branches and departments at distant places

Disadvantages of central store

1. Smaller stocks are needed
 2. Higher staff required
 3. Paper work is increased
 4. Control of stock level is not easy and simple
 5. Better security measures can be introducing
 6. Higher risk of duplication of items of stock
- **Imprest stock description of cons and pros of centralized stock:** in this case , the materials are received by the central stores but some items of those materials are issued to some sub stores on the basis of imprest system.

L. O 2.6: DIFFERENTIATE THE METHODS OF STOCK VALUATION

2.6.1: Description of the methods of stock evaluation:

1. First In First Out (FIFO)

The business assumes that items of stock which were purchased first are sold first and therefore, items left as part of closing stock were purchased recently.

2. Last In First Out (LIFO)

This method assumes that items of stock which were purchased last are sold first and therefore, the closing stock shows items that were bought first.

3. Weighted Average Cost (AVCO)

Under this method, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of the period and the cost of similar items purchased during the period.

METHODS OF VALUING MATERIAL ISSUES

When the materials are issued by the storekeeper, they are valued in order to determine the material cost of different or products. There are many methods of valuing material issues:

1. First in, First out (FIFO)
2. Last in, First out (LIFO)
3. Simple average
4. Weighted average
5. Base stock
6. Replacement cost
7. Standard price

For this purpose the following transactions are recorded in the stores ledger cards under each method.

Example 1

May 2: Received 500 units at 20 each

May 8: Received 300 units at 22 each

May 10: issued 400 units

May 15: issued 200 units

May 20: received 600 units at 25 each

May 25: issued 300 units

May 27: received 200 units at 26 each

May 30: issued 100 units

Standard price for each unit for the month of May is 24.

Market price of this material on June 3rd is 27 per unit and 400units were purchased on that day.

FIRST IN, FIRST OUT (FIFO)

This method assumes that the goods issued are those which have longest on hand and that those remaining in stock represent the latest purchases or production. The stocks whose cost is to be carried forward is the ones acquired most recently. Under this method, the material is issued at

the cost price of that consignment which was received first. When this consignment is finished then the cost price of next consignment is charged to value the material issues. This procedure is followed continuously. This method is simpler, realistic, and gives fair valuation of goods. The main disadvantage of this method is that it doesn't reflect the current economic values in the presence of big price fluctuations.

The transactions given in example 1 are recorded under FIFO in the stores ledger card (BIN CARD)

STORES LEDGER CARD

Dates	R e c e i p t s				I s s u e s				B a l a n c e	
	G.RNo	Qty	Price	Value	M.RNo	Qty	Price	Value	Qty	Value
May 2		5 0 0	2 0	10 000					5 0 0	10 000
8		3 0 0	2 2	6 600					8 0 0	16 600
1 0						4 0 0	2 0	8 000	4 0 0	8 600
1 5						1 0 0	2 0	2 000	3 0 0	6 600
						1 0 0	2 2	2 200	2 0 0	4 400
2 0		6 0 0	2 5	15 000					8 0 0	19 400
2 5						2 0 0	2 2	4 400	6 0 0	15 000
						1 0 0	2 5	2 500	5 0 0	12 500
2 7		2 0 0	2 6	5 200					7 0 0	17 700
3 0						1 0 0	2 5	2 500	6 0 0	15 200

500 units purchased on May 2, were first in and these must go first. These were issued as 400 units on May 10 and 100 units on May 15. these should be valued at 20 per unit. 300 units purchased on May 8, were issued as 100 units on May 15 and 200 units on May 25. these must be valued at 22 each unit. From 600 units purchased on May 20, 100 units were issued on May 25 each. Now 600 units in stock are valued as under:

400 units from May 20, purchases = $400 \times 25 = 10\ 000$

200 units purchased on May 27 = $200 \times 26 = 5\ 000$

15 000

LAST IN, FIRST OUT

This method assumes that the goods issued on any particular date are those which were most recently acquired and therefore stocks whose cost is to be carried forward are those which were acquired earliest. The procedure of this method is exactly reverse of FIFO method.

The method reflects the current economic value of goods charged to production because it is not realistic that the stock left in the store is valued at those prices which were paid first and these prices are sometimes far below current market prices.

The transactions given in example 1 are recorded under LIFO method in a stores ledger card (BIN CARD)

STORES LEDGER CARD

Dates	R e c e i p t s				I s s u e s				B a l a n c e	
	G.R.No	Qty	Price	Value	M.R.No	Qty	Price	Value	Qty	Value
May 2		5 0 0	2 0	10 000					5 0 0	10 000
8		3 0 0	2 2	6 600					8 0 0	16 600
1 0						3 0 0	2 2	6 600	5 0 0	10 000
1 0						1 0 0	2 0	2 000	3 0 0	8 000
1 5						2 0 0	2 0	4 000	2 0 0	4 000
2 0		6 0 0	2 5	15 000					8 0 0	19 000
2 5						3 0 0	2 5	7 500	6 0 0	11 500
2 7		2 0 0	2 6	5 200					7 0 0	16 700
3 0						1 0 0	2 6	2 600	6 0 0	14 100

100 units from May 27, purchases = $100 \times 26 = 2\ 600$

300 units from May 20, purchases = $300 \times 25 = 7\ 500$

200 units from May 2, purchases = $200 \times 20 = 4\ 000$

SIMPLE AVERAGE

Under this method, a simple average of prices of all consignments in stock is calculated and this average price is used to value material issue. In case of simple average method, quantities are not taken into consideration. This method is simple but difficult to determine which prices should be taken to calculate the average. The transactions given in example 1 are recorded under simple average method in stores ledger card.

STORES LEDGER CARD

Dates	R e c e i p t s				I s s u e s				B a l a n c e	
	G.RNo	Qty	Price	Value	M.RNo	Qty	Price	Value	Qty	Value
May 2		5 0 0	2 0	10 000					5 0 0	10 000
8		3 0 0	2 2	6 600					8 0 0	16 600
1 0						4 0 0	2 1	8 400	4 0 0	8 200
1 5						1 0 0	2 1	4 200	2 0 0	4 000
2 0		6 0 0	2 5	15 000					8 0 0	19 000
2 5						3 0 0	23 . 5	7 050	5 0 0	11 950
2 7		2 0 0	2 6	5 200					7 0 0	17 150
3 0						1 0 0	25 . 5	2 550	6 0 0	14 600

The simple average at May 10 and May 15 is: $\frac{20+22}{2} = 21$

2

500 units purchased on May 2 were exhausted in second issue of 200 on May 15.

800 units available on May 25 are from two consignments of May 8 and May 20 so simple average is: $\frac{22 + 25}{2} = 23.5$

2

300 units purchased on May 8 are exhausted in issue of May 25.

700 units available on May 30 are from two consignments of May 20 and May 27 so simple average is: $\frac{25 + 26}{2} = 25.5$

2

WEIGHTED AVERAGE

Weighted average means weighted average price. Under this method, the total value of goods in stock is divided by the number of units in stock. The transactions given in example 1 are recorded under weighted average method in a stores ledger card.

STORES LEDGER CARD

Dates	R e c e i p t s				I s s u e s				B a l a n c e	
	G.RNo	Qty	Price	Value	M.RNo	Qty	Price	Value	Qty	Value
May 2		5 0 0	2 0	10 000					5 0 0	10 000
8		3 0 0	2 2	6 600					8 0 0	16 600

1	0					4 0 0	20.75	8 300	4 0 0	8 300
1	5					1 0 0	20.75	4 150	2 0 0	4 150
2	0	6 0 0	2	5	15 000				8 0 0	19 150
2	5					3 0 0	23.94	7 181	5 0 0	11 969
2	7	2 0 0	2	6	5 200				7 0 0	17 169
3	0					1 0 0	24.53	2 453	6 0 0	14 716

The formula for weighted average price is:

$$\text{Weighted average price} = \frac{\text{Total value of goods in stock}}{\text{Number of units}}$$

Weighted average prices in the above calculations are obtained as under:

DATE	WEIGHTED AVERAGE
May 10	$\frac{16\ 600}{800} = 20.75$
May 15	$\frac{8\ 300}{400} = 20.75$
May 25	$\frac{19\ 150}{800} = 23.94$
May 30	$\frac{17\ 169}{700} = 24.53$

BASE STOCK

Under this method, a fixed quantity is carried as base stock. It is assumed that a fixed minimum stock of the material is always carried at original cost. This minimum stock is called as base stock because it is kept for emergencies. The stock is not allowed to fall below this level.

Base stock method is similar to FIFO method because after deducting the base stock figure, the remaining issues are valued at FIFO basis. This method has the same advantages and disadvantages which are of the FIFO method.

The transactions given in example 1 are recorded under this method in stores ledger card. We assume base stock is 100 units.

STORES LEDGER CARD

Dates	R e c e i p t s	I s s u e s	B a l a n c e
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	G.RNo	Qty	Price	Value	M.RNo	Qty	Price	Value	Qty	Value
May 2		5 0 0	2 0	10 000					5 0 0	10 000
8		3 0 0	2 2	6 600					8 0 0	16 600
1 0						4 0 0	2 0	8 000	4 0 0	8 6 0 0
1 5						2 0 0	2 2	4 400	2 0 0	4 2 0 0
2 0		6 0 0	2 5	15 000					8 0 0	19 200
2 5						1 0 0	2 2	2 200	7 0 0	17 000
						2 0 0	2 5	5 000	5 0 0	12 000
2 7		2 0 0	2 6	5 200					7 0 0	17 200
3 0						1 0 0	2 5	2 500	6 0 0	14 700

100 units from purchases of May 2 (Base) = 100 x 20 = 2 000

300 units from purchases of May 20 = 300 x 25 = 7 500

200 units from purchases of May 27 = 200 x 26 = 5 200

14 700

REPLACEMENT COST

This method is called as Next In, First Out (NIFO) method. Under this method, material issues are valued at replacement cost or market value. It means that materials issued are valued according cost incurred to replace those materials.

This method ensures the valuation of material issues at market or current prices. This method is logical but it is difficult to ascertain the price of next purchase. In this case also profit or loss arises as a result of material issues.

The transactions given in example 1 are recorded under replacement method in a stores ledger card.

STORES LEDGER CARD

Dates	R e c e i p t s				I s s u e s				B a l a n c e	
	G.RNo	Qty	Price	Value	M.RNo	Qty	Price	Value	Qty	Value
May 2		5 0 0	2 0	10 000					5 0 0	10 000
8		3 0 0	2 2	6 600					8 0 0	16 600
1 0						4 0 0	2 5	10 000	4 0 0	6 6 0 0

1 5						2 0 0	2 5	5 000	2 0 0	1 6 0 0
2 0		6 0 0	2 5	15 000					8 0 0	16 600
2 5						3 0 0	2 6	7 800	5 0 0	8 8 0 0
2 7		2 0 0	2 6	5 200					7 0 0	14 000
3 0						1 0 0	2 7	2 700	6 0 0	11 300

Material issued on May 10 and May 15 has been valued at 25 per unit because next purchase on May 20 was 25 per unit.

Material issued on May 25 has been valued at 26 per unit because next purchase on May 27 was on this price per unit. Material issued on May 30 has been valued at 27 per unit because price of material per unit on June 3 is 27.

STANDARD PRICE

Standard price means predetermined price. A standard price is ascertained taking into consideration a number of factors. These factors are consumption of material, expected changes in the price of the material and so on. Under this method, all material issued are valued at standard price. This method is simple, stable and provides a check on the efficiency of the enterprise.

The main drawbacks of this method are disregard of actual price changes and differences between actual cost and standard cost. In this case also, profit or loss arises.

The transactions in example 1 are recorded under standard price method in a stores ledger card.

STORES LEDGER CARD

Dates	R e c e i p t s				I s s u e s				B a l a n c e	
	G.R.No	Qty	Price	Value	M.R.No	Qty	Price	Value	Qty	Value
May 2		5 0 0	2 0	10 000					5 0 0	10 000
8		3 0 0	2 2	6 600					8 0 0	16 600
1 0						4 0 0	2 4	9 600	4 0 0	7 0 0 0
1 5						2 0 0	2 4	4 800	2 0 0	3 2 0 0
2 0		6 0 0	2 5	15 000					8 0 0	18 200
2 5						3 0 0	2 4	7 200	5 0 0	11 000
2 7		2 0 0	2 6	5 200					7 0 0	16 200

3	0					1 0 0	2 4	2 400	6 0 0	13 800
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All the material issued has been valued at 24 per unit which is the standard price. This price has been given in example 1.

L.O 2.7: DESCRIBE THE METHODS FOR CALCULATING PAYMENTS FOR LABOUR

2.7.1: Description of methods for calculating payments of labour :

Computation of labor cost refers to the basis of determining how much is to be paid to an employee for his services. Basically, wages are paid according to performance or according to time spent by an employee on employer's work. Various methods of computing wages are explained as under

- ✓ **TIME RATE METHOD:** Under this method, payment is made on the basis of time that may be an hour, a day, a week, or a month. A certain sum of money is set for each of the above units of time. Basically, workers are paid according to a number of hours worked during a particular week or month. Hourly rate is decided in advance at the time a worker is employed. This hourly rate is then multiplied by the number of hours worked during a particular month and a resultant figure is the wage for that month.

Formula = Hours worked x Rate per hour
--

Example: Assuming a worker is paid 110 RWF per hour and he has spent 200 hours during a particular month in a factory. His wage will be:

Wage = Time x rate = 200 x 110 = RWF 22,000

Note: This method is suitable for:

- ❖ Work where quality of output is all important than quantity,
- ❖ Work where incentive scheme would be difficult or impossible to install,
- ❖ Work where the output level is not under the employee's control (power station worker),
- ❖ Work where the output is difficult to measure.

Advantages of time based method

- ❖ Workers have a feeling of security
- ❖ Simple to administer, easy to understand

- ❖ Easy to compute employee's wages
- ❖ Good pieces should produced
- ❖ Disadvantages of time-based method
- ❖ No productivity incentive
- ❖ Employees are paid for time rather than output
- ❖ A high level of supervision is required

If overtime can be worked, some workers tend to work slowly during the basic time, and then request overtime premium. This will increase labour wages without increasing output

Hence, this method is rarely used when output can be measured and where high output and high efficiency is needed. Conversely, it will be used where output is difficult to measure or when quality is important.

- ❖ Highly motivated workers are required
- ❖ The slow workers receive the same wage as the quick workers, thus tending to cause discontent.

✓ **PIECEWORK METHOD OR OUTPUT-BASED SCHEME**

Under this system of remuneration, a worker is paid on the basis of production (output) irrespective of time taken by hi/her to perform the work. This method is also relatively easy to apply, since wages are calculated by multiplying the units of output recorded for each worker by a rate per unit (piece rate).

The rate of pay is expressed in terms of certain sum of money for every unit produced.

Formula: Wages= Units produced x Rate per unit

Example: A worker is paid RWF 50 per unit and he has produced 20 units in 7 hours. Calculate his total wage under output based scheme.

$$\text{Wage} = \text{Rate} \times \text{Units produced} = 50 \times 20 = \text{RWF } 1,000$$

The piece work method places the entire responsibility for production on the worker. If for any reason, even those beyond his control, such as a shortage of materials, he produces nothing, his wage is zero.

To alleviate this problem, this method is modified by incorporating a guaranteed time rate to ensure that the worker earns a basic wage for clock hours irrespective of output.

This system will be called **A GUARANTEED MINIMUM RATE**. Under this system a worker receives the straight piece rate for the number of pieces he produces.

Example: An employee works 35 hours a week at RWF 2 per hour and produces 40 units. The guaranteed time rate is RWF 1 per unit. Calculate his weekly total wage.

Wage= (Time x Rate per hour) + (Units x Rate per unit)

Wage= (35x 2) + (40x1) = RWF 110

Advantages

- ❖ Increase of production
- ❖ Increase employee's remuneration
- ❖ Reduce unit costs
- ❖ Improve competitive position of the company
- ❖ Workers are remunerated on their individual merit, and the cost of waste is eliminated.

Disadvantages

- ❖ Complex to administer
- ❖ Difficulties in agreeing the remuneration per unit of output
- ❖ Defective products should be increased
- ❖ No quality products should be increased
- ❖ Workers who are slower may become discontented

Characteristics

- ❖ Guaranteed minimum wage are normally offered
- ❖ The minimum wage is paid in case where employees fail to reach minimum level or to safeguard when there are delays, shortage, machine breakdowns.

✓ **HIGH TIME RATE FOR OVERTIME**

Under this method, normal working hours are paid at the normal time but for overtime worked during week days and at weekends, a higher rate is paid in order to induce workers to work for more hours. Usually, normal working hours from Monday to Friday are 8 hours per day and for Saturday 5 hours. It means that weekly normal working hours are 45 hours. During week days, for extra time worked, hourly rate is 50% higher than normal hourly rate. For Sunday, it is doubled.

Example: We assume MUSINGA's hourly rate is RWF 1,000. During a particular week, he worked for 60 hours including 8 hours on Sunday. Determine his wage for that week.

Answer: Basic Wage or pay = 45 hours x Rwf1, 000/hr =RWF 45,000

Overtime pay: Saturday= 7 hours x RWF 1,500/hr= RWF 10,500

Sunday= 8hours x RWF 2,000/hr= RWF 16,000

Total wage of MUSINGA for that week = 45,000 + 10,500 + 16,000 = RWF 71,500

✓ **PIECE RATE WITH GUARANTEED TIME RATE**

Under this method, a specified amount is paid to the worker on daily or monthly basis irrespective of units produced by him during that period but if this output exceeds a minimum limit then he is paid according to piece rate method. This method ensures a specific daily or monthly income of the workers. Lower output in a particular period may result due to some reasons not related to the efficiency of workers like shortage of materials, power failures, machinery breakdowns, etc. In such cases, the guaranteed wages is paid to workers.

Example: We assume the guaranteed wage of Peter is Rwf 15,000 and he is paid Rwf 50 per unit produced. Find out his monthly wage on the basis of the following assumptions:

- a) 500 units were produced during that month
- b) 270 were produced during that month

Answer: For 500 units = 500 units x 50 Rwf/unit = 25,000 Rwf

For 270 units = 270 x 50 Rwf/unit= 13,500 Rwf because this wage is below the minimum, Peter will receive the **Guaranteed or minimum wage of 15,000.**

✓ **DIFFERENTIAL PIECE RATE**

Under this method, piece rate varies at different levels of output. If the worker produces more units, then he is paid at the higher piece rate beyond a specified level of output.

Example: We assume Joseph is paid 50 Rwf per unit up to 100 units; 60 Rwf per unit for 101 to 200 units and 70 Rwf per unit produced in excess of 200 units. Find out his wage for that period if he produced 250 units.

Answer: Total wage of Joseph = (100 x 50) + (100 x 60) + (50 x 70) = 14,500 Rwf

Premium bonus schemes

1. Halsey premium plan

While calculating total earnings of a worker, under different incentive wage schemes, the following 4 elements must be taken into account:

- Unit of output

- Standard time (time allowed)
- Time worked
- Time saved

Under Halsey premium plan, a standard time is fixed for each job or operation. Time rate is guaranteed to a worker and if he completed the job within standard time or more than the standard time, he is paid standard rate. But if the job is completed in less than the standard time fixed for the job, he is given wages for actual hours taken plus bonus equal to one half (50%) of the wage of the time saved.

Formulas: Bonus= $\frac{1}{2}$ x (Time saved x Wage Rate)

Basic pay= Time worked x Wage Rate

Gross earnings= Basic pay + Bonus or,

Gross earnings= (Time worked x Wage Rate) + $\frac{1}{2}$ (Time saved x Wage Rate)

Example: An employee of New System Motor Vehicle is paid \$1.50 hourly rate. Time allowed to perform the job is 16 hours. Time taken to accomplish job is 12 hours. Required:

- a) Calculate the employee's bonus
- b) Compute the basic pay of employee
- c) Compute his Gross earning (Gross pay)
- d) Effective Rate of earning

Bonus= $\frac{1}{2}$ (Time saved x Wage Rate)

Time saved= Time allowed- Time taken= 16 hours- 12 hours=**4 hours**

- a) Bonus= $\frac{1}{2}$ (16-12) × 1.5= **\$ 3**
- b) Basic pay= Time taken x Wage rate= 12 x 1.5= **\$ 18**
- c) Gross earnings= Basic pay + Bonus= 18 + 3= **\$ 21**
- d) Effective Rate of earning= Gross earnings/Time taken= $\frac{21}{12} = 1.75$

2. Halsey- Weir premium plan

Under this method, other things being the same as Halsey plan, the rate of premium usually applied is 33.33; 66.67 sharing plan basis between employee and employer respectively. But in practice Halsey plan is on a ratio of 50:50 sharing scheme.

Formula: Bonus= $\frac{1}{3}$ ×Time saved × Pay rate (rate per hour)

Example: Time allowed 16 hours

Time taken 12 hours

Time saved 4 hours

Basic pay rate \$1.50 per hour

$$\text{Bonus} = 33.33 \times \text{time saved} \times \text{pay rate} = 33.33 \times (16-12) \times 1.50 = \$ 2$$

$$\text{Basic pay} = 12 \times 1.50 = \$18$$

$$\text{Gross earnings} = 2 + 18 = \$20$$

$$\text{Effective rate of earnings} = \frac{20}{12} = 1.67$$

3. Rowan premium plan

This system is similar to the above two plans. The worker is guaranteed at ordinary rate of wages and bonus is paid in respect of time saved. Under the Rowan system the bonus hours are calculated as the portion of the time taken which the time saved bears to the standard time allowed.

Formula:

$$\begin{aligned} 1^{\circ} \text{ Step 1: Bonus Rate} &= \\ &= \frac{(\text{Time allowed} - \text{Time taken})}{\text{Time allowed}} \times 100 = \dots\% \\ \text{Step 2}^{\circ}: \text{ Bonus pay} &= \text{Basic pay} \times \text{Bonus Rate} \end{aligned}$$

$$\text{Or, Bonus} = \frac{\text{Time taken}}{\text{Time allowed}} \times \text{Time saved} \times \text{Hourly} \times \text{rate}$$

$$\text{Example: Bonus rate} = \frac{16-12}{16} \times 100 = 25\%$$

$$\text{Gross earnings} = \text{Basic pay} + \text{Bonus}$$

$$\text{Bonus} = 18 \times 25\% = 4.5$$

$$\text{Gross earnings} = 18 + 4.5 = 22.5$$

$$\text{Effective rate of earnings} = \frac{22.5}{12} = 1.875$$

Note: All those above premium systems are based on time saved as shown by the summary below:

1. Halsey Method = One-half of time saved

2. Halsey-Weir = 1/3 (One-third of time saved)

3. Rowan = $\frac{\text{Time taken}}{\text{Time allowed}} \times \text{Time saved}$

Time saved = Standard/ allowed time - Time taken

L U. III. USE THE COST SYSTEM TO INTERPRET DATA

L. O.3.1: Identify methods of assigning costs

3.1.1: Description of Job order costing

In this method, costs are collected and accumulated separately for each job or work order. It is used in repair shops, printing press, painting and decorating, production of made to order articles, etc.

Characteristics or features of job costing are:

- ❖ Production is always against customers' orders and not for stocks
- ❖ Each job has its own characteristics and needs special treatment
- ❖ Each job undertaken is a cost unit
- ❖ A separate job cost sheet is prepared for each job to ascertain profit/loss on the job
- ❖ There is no uniformity in the flow of production from one department to another.

Various costs are recorded in the following manner.

Direct Material Costs: Material used during the production process of a job and identified with the job is the direct material. The cost of such material consumed is the direct material cost. Direct material cost is identifiable with the job and is charged directly.

Direct Labor Cost: This cost is also identifiable with a particular job and can be worked out with the help of 'Job Time Tickets' which is a record of time spent by a worker on a particular job. The 'job time ticket' has the record of starting time and completion time of the job and the time required for the job can be worked out easily from the same. Calculation of wages can be done by multiplying the time spent by the hourly rate. Here also standards can be set for the time as well as the rate so that comparison between the standard cost and actual cost can be very useful.

Direct Expenses: Direct expenses are chargeable directly to the concerned job. The invoices or any other document can be marked with the number of job and thus the amount of direct expenses can be ascertained.

Overheads: This is really a challenging task as the overheads are all indirect expenses incurred for the job.

Work in Progress: On the completion of a job, the total cost is worked out by adding the overhead expenses in the direct cost. In other word, the overheads are added to the prime cost. The cost sheet is then marked as ‘completed’ and proper entries are made in the finished goods ledger. **Advantages of Job Costing**

The following are the advantages of job costing.

- Accurate information is available regarding the cost of the job completed and the profits generated from the same.
- Proper records are maintained regarding the material, labor and overheads so that a costing system is built up
- Useful cost data is generated from the point of view of management for proper control and analysis.
- Performance analysis with other jobs is possible by comparing the data of various jobs. However, it should be remembered that each job completed may be different from the other.
- If standard costing system is in use, the actual cost of job can be compared with the standard to find out any deviation between the two.
- Some jobs are priced on the basis of cost plus basis. In such cases, a profit margin is added in the cost of the job. In such situation, a customer will be willing to pay the price if the cost data is reliable. Job costing helps in maintaining this reliability and the data made available becomes credible.

3.1.2: Description of Process costing

In this method costs are separately collected and accumulated for each process or department. In order to arrive at the cost per unit, the total cost of the process or department is divided by the quantity of production. This method is used in mass production industries manufacturing like textile mills, chemical works, sugar mills, paper mills, soap manufacturing.

The methods of costing basically aim at finding out the cost of a product or service, which is offered by the organization. Process Costing is also a method of costing which is used in those industries where the production is in continuous process, i.e. the output of one process becomes the input of the subsequent process and so on. This method is employed where it is not possible to trace the items of prime cost [which consists of all direct costs] to a particular order because its identity is lost in the continuous production. Thus it is not possible to compute the cost of say, 200 liters of oil or 200 kg of sugar produced as thousands of liters of oil or thousands of kg of sugar is manufactured at the same time.

The features of process costing are discussed in the following paragraphs.

1. The production is in continuous flow and is uniform. All units coming out as finished products are uniform with each other in all respects.
2. The product is manufactured in a continuous flow and hence individual units lose their identity.
3. The unit cost is obtained by dividing the total cost for a particular period by the total output. This is the average cost of the product units.
4. Cost per process is ascertained and cost of each process is transferred to the subsequent process until the finished product emerges.
5. In a particular process normal and abnormal losses emerge. Normal loss is a loss, which is inevitable in any process and thus cannot be avoided or controlled. Any loss, which, is

over and above, the normal loss is called as abnormal loss and is to be accounted for separately.

Preparing Process Cost Accounts

- 1) As explained above, the objective of process costing is to work out the cost of each process, transfer the same to the subsequent process and finally ascertain the total cost of production. Therefore, it is necessary to charge various costs to each process. For this, the factory is divided into distinct processes or operations and an account is kept of each process to which all the costs are debited.

The following are the various elements of cost, which are shown in the process accounts.

- a) **Materials:** Raw materials required for each process is drawn from stores against material requisitions. Proper procedure like preparing and authorizing the requisition, pricing of the issues, return of materials to the stores, transfer of material from one process to another should be followed while issuing the materials
- b) **Labor:** Wages paid to workers and supervisory staff should be charged to the particular process if they can be identified with it. If workers work on two or more processes, proper allocation should be made according to some basis like time spent on each process.
- c) **Direct Expenses:** If expenses are identifiable with a particular process, they should be charged to that process. For example, cost of electricity, depreciation may be charged directly to a process if they are identifiable with it.

Overheads: By nature, overheads are indirect expenses and hence cannot be identified with a particular process. These expenses can be apportioned on some suitable basis and charged to the process.

3.1.3: Description of hybrid cost accounting system

L O. 3.2: RECONCILE DATA TO UNSURE THAT CALCULATIONS COMPLY WITH ORGANIZATION PROCEDURES

3.2.1: Identification of purpose of Reconciliation of Cost and Financial Accounts

1. To find out the reasons for the difference in the profit or loss in cost and financial accounts and to indicate the position clearly and to be sure that no mistakes pertaining to accounts have been committed.
2. To ensure the mathematical accuracy and reliability of cost accounts in order to have cost ascertainment, cost control and to have a check on the financial accounts.
3. To contribute to the standardization of policies regarding stock valuation, depreciation and overheads.
4. To facilitate coordination and promote better cooperation between the activities of financial and cost sections of the accounting department.
5. To place management in better position to acquaint itself with the reasons for the variation in profits paving the way to more effective internal control.

3.2.2: Analyzing revenues and costs

3.2.3: Adjustment of items as per cost accounts

(I) Ascertain the various reasons of disagreement (as discussed above) between the profits disclosed by two sets of books of accounts.

(II) If profit as per cost account (or loss as per financial accounts) is taken as the base:

Add:

- (i) Items of income included in financial accounts but not in cost accounts.
- (ii) Items of expenditure (as interest on capital, rent on owned premises etc.) included in cost accounts but not in financial accounts.
- (iii) Amounts by which items of expenditure have been shown in excess in cost accounts as compared to the corresponding entries in financial accounts.
- (iv) Amounts by which items of income have been shown in excess in financial accounts as compared to the corresponding entries in cost accounts.
- (v) Over-absorption of overheads in cost accounts.
- (vi) The amount by which closing stock of inventory is undervalued in cost accounts.
- (vii) The amount by which the opening stock of inventory is overvalued in cost accounts.
- (viii) Over charge of depreciation in cost accounts.

Deduct:

- (i) Items of income included in cost accounts but not in financial accounts.
- (ii) Items of expenditure included in financial accounts but not in cost accounts.
- (iii) Amounts by which items of income have been shown in excess in cost accounts over the corresponding entries in financial accounts.
- (iv) Amounts by which items of expenditure have been shown in excess in financial accounts over the corresponding entries in cost accounts.
- (v) Under-absorption of overheads in cost accounts.
- (vi) The amount by which closing stock of inventory is overvalued in cost accounts.
- (vii) The amount by which the opening stock of inventory is undervalued in cost accounts.

(viii) Under charge of depreciation in cost accounts.

(III) After making all the above additions and deductions, the resulting figure will be profit as per financial accounts (or loss as per cash accounts).

Note:

If profit as per financial accounts (or loss as per cost accounts) is taken as the base, then items added shall be deducted and items to be deducted shall be added i.e. the procedure shall be reversed.

L.U.4: USE THE COST SYSTEM TO INTERPRET DATA

L O 4.1: GATHER COST INFORMATION AND ORGANIZATIONAL ACTIVITIES FROM ALL SECTIONS OF ORGANIZATION WHEN FORMULATING REPORTS

4.1.1: Identification of report elements

4.1.2: methods of gathering cost information

4.1.3: Identification of organizational activities

L O 4.2: FORMATTING THE REPORT

4.2.1: Description of report format

A formal **report** is an official **report** that contains detailed information, research, and data necessary to make **business** decisions.

4.2.2: DESCRIPTION OF REPORT STRUCTURE

A POSSIBLE STRUCTURE COULD BE:

- 1. Introduction:** Background to the role, brief description of what the job involves and how to find information about it.
- 2. Job description and skills:** Detailed description of the responsibilities of the role and the skills required.
- 3. Relevant employers:** Which companies hire for this role and what they are looking for.
- 4. Career prospects:** What other jobs might this role lead onto, what is the job market like for this role?
- 5. Conclusion:** What this research has shown about the best ways of becoming employed in this role.

L O 4.3: PROVIDE COMPREHENSIVE REPORTS AND COMPLY AD HOC MANAGEMENT REQUIREMENTS OF ORGANIZATION