

Introduction of Cost Accounting

Meaning of Financial Account:

- Financial Accounting is concerned with recording of all business transactions in systematic way by help of various financial statements.
- Financial Accounting is the art of recording, classifying, summarising all business transactions as well as communicates the accounting information to various interested parties.

Objectives of Financial Account:

1. To identify all business transactions of financial nature and records them in suitable books of account.
2. To find out profit & loss of the business during each fiscal year.
3. To show the financial position by the preparation of balance sheet of the business.
4. To communicates the operating result to the management, the government, customer, suppliers, etc.
5. To provide necessary information to tax authorities and government agencies to determine tax liabilities of the business.

Limitations of Financial Account:

1. It provides the overall result of the business but it fails to determine the profit of each department, each process in production of same product.
2. It does not classify the expenses such as fixed, variable, direct and indirect cost.
3. It does not have any proper standard to measure the efficiency of the organization in use of material and other resources.
4. It does not give complete information of losses due to idle time and idle machines.
5. It does not give total cost information to the management In order to control the cost of material and labour as well as to formulate production plan and policy.

Meaning of Cost Accounting:

- Cost Accounting is a system of recording all types of cost related to production of goods or services.
- Cost Accounting is concerned with collection, classification, recording, analysis and appropriate allocation of expenditure for the determination of cost of goods and services.
- Cost sheet is the main statement under Cost Accounting.

Objectives of Cost Accounting:

1. To Determine & analyse the unit cost at each activities and total cost of goods and services.
2. To help to determine (fix) the selling price of product or service by providing the data relating to cost of production.
3. To help to control the cost of manufacturing goods and services.
4. To find out profit & loss by comparing revenue with cost of producing goods or services.
5. To provide information to the management for formulating future production plan and to take effective decision about production process.

Features of Cost Accounting:

1. **Basis for accumulating cost:** It accumulates cost as per all individual job, manufacturing departments or processes.
2. **Relationship with financial accounts:** Cost Accounting is subsidiary to financial accounting since it provides cost data of stock of work in progress and finished goods in order to prepare financial statements.
3. **Basis for product cost:** It is a basis for product cost since it records all types of actual cost incurred for production process during a period.
4. **Absorption costing and variable costing:** It uses absorption costing or variable costing method in preparation of income statement.
5. **Usefulness:** It provides cost related information to the management for product decision, pricing decision and implementation of new product planning.

Difference between Financial Accounting and Cost Accounting:

FINANCIAL ACCOUNTING	COST ACCOUNTING
i) It is prepared on both trading concern and manufacturing concern.	i) It is prepared on manufacturing concern only.
ii) It's objectives is to record all financial transaction of the business and to show profit or loss and financial position.	ii) It's objectives is to record all types of cost involved in production process and reports about the cost for decision making planning and control.
iii) It records the cost of past activities.	iii) It records both historical cost and estimated future cost.
iv) It is maintained as required by Company Act and Income tax Act.	iv) It is maintained to give information about production cost to the management.
v) It is prepared at the end of each accounting period.	v) It is prepared whenever required by the management.

Methods of Costing:

There are various method of costing which are used for calculating cost of goods or service produced. The method of costing differs from industry to industry. Which is depends upon nature of product, decision of management and production process etc. Following are the method of costing:

1. Job Order Costing:

- It is the method of costing which determines the cost of each job order taken from the customers for the supply of goods. In this method, cost is collected, calculated and controlled for each job. Each job is specific and ends after certain period.
- It is concerned with calculating the cost related to each job order. Goods are manufactured as per order only. It is used in furniture industries, printing press, repairs & maintenance, Grill industries etc.

2. Unit/Output/Single Costing:

- It is the method of costing concerned with calculation of the cost of production of single nature of product manufactured.
- Some time there may be production of varieties of similar product or different grade of product.
- It refers preparation of cost sheet by which cost per unit of any product can be determined as follows:

$$\text{Cost per Unit} = \frac{\text{Total Cost of Production}}{\text{Number of Output}}$$

It is used for manufacturing goods like brick, steel, cement, electronic goods etc.

3. Process Costing:

- It is the method of costing applied to determine the cost at each stage of the process. It is used in such manufacturing concern which produces finished goods by following different stages of production process.
- This method is used to calculate the cost of production for each process. For e.g.: textile industry, vehicle industries, flour mill, sugar industries apply this costing.

4. Contract Costing:

- It is the method of costing concerned with different contracts.
- Such as construction of building, bridges, road etc. It is applied by the contractor to ascertain the cost of construction.
- It includes all the cost like material supplies, wages included in constructional work.

5. Service (Operating) Costing:

- It is the method of costing used by such industries which provided services like transport services, lodging services, medical services, rather than manufacturing physical goods.
- It includes all the cost in relation to service rendered. It is also called as operational or functional costing. In this system, the unit cost can be calculated according to the nature of services such as patient per day. Passenger fare per km, fee per student etc.

Techniques of Costing:

1. Historical Costing
2. Direct Costing
3. Variable Costing
4. Absorption Costing

5. Standard Costing 6. Uniform Costing

The management of every manufacturing concern wants to control the cost of goods or service produced. The cost related information is essential to formulate new business policies, new product plan and to take effective decision for overall success of the organization. Following are the techniques of costing:

1. Historical Costing:

- In this technique all cost which are related with manufacturing goods or services are collected and classified after making actual expenditure.
- It includes all the expenses in order to calculate the total cost after the completion of work.
- This technique is applied to compare the cost of different periods to evaluate the performance.

2. Direct Costing:

- All the cost, which are directly related with production of goods or services are taken into consideration under technique.
- It includes all direct cost, variable cost and some fixed cost relating to job, product or services. It includes all other cost which are included in profit & loss A/C.

3. Variable Costing/Marginal Costing:

- Under this techniques all variable manufacturing cost such as direct materials, direct labour, direct expenses and variable manufacturing expenses are included in product cost.
- It considers fixed cost as period cost. In this technique, product cost is increased in proportion to rise in output. It is also called partial costing.

4. Absorption Costing:

- Under this technique all variable manufacturing cost along with fixed manufacturing cost is considered to calculate product cost.
- It includes both direct and indirect cost in relation to production process. So it is also called full costing or traditional (conventional) costing. In this technique stock of goods are valued as per product cost.

5. Standard Costing:

- Under this technique, a predetermined standard data of production process is prepared and such data can be compared with the variation between standard data and actual data.
- Standard cost refers to pre-determined cost of material, labour and overhead by the comparison of both data. It helps to provide guidelines to the management and helps to take corrective action.

6. Uniform Costing:

- A costing technique adopted by a group of manufacturing concern with the common agreement by following similar costing principle and practice is called uniform costing.
- In this system the manufacturer of same nature of product follow same way of calculating cost of production.

Concept of Cost:

- The amount of expenditure incurred in relation to producing goods or services is called cost.
- In other words cost is the amount of resources given up in exchange for some goods or service. Resources are generally expressed in term of money.
- Cost is concerned with performing specific activity, job, service, process etc. There are mainly two types of cost, one is direct and another is indirect cost.

1. Direct Cost:

- Those costs such as direct materials, direct labour and direct expenses which are incurred in manufacturing process and which can be easily identified with volume of production.
- For e.g. Wages of machine operator, cost of raw material used, carriage paid for materials. The total of direct cost is also called as Prime Cost.

$$\text{Direct Cost} = \text{Direct Material} + \text{Direct Labour} + \text{Direct Expenses}$$

2. Indirect Cost:

- The total cost of indirect materials, indirect labour and indirect expenses is called indirect cost. These cost cannot be easily identified with particular cost unit, process or department.
- These costs are not directly related with finished product but assist in production process.
- For e.g. Factory rent, manager's salary, oil and lubricants for machine.

$$\text{Indirect Cost/Overhead} = \text{Indirect Materials} + \text{Indirect Labour} + \text{Indirect Expenses}$$

Element of cost: Cost is composed of three elements materials, labour and expenses.

1. Material Cost:

- Materials cost refers to such cost of commodities or things which are supplied to the industry as raw in nature for producing finished product.

- The existence of such commodities can be seen in finished goods.
2. **Labour Cost:**
 - The cost offered to employee as wages/salary for the contribution made by them in production process is called labour cost.
 3. **Expenses:** All cost other than materials and labour are called expenses.

• **Overhead = Indirect Material + Indirect Labour + Indirect Expenses**

Types of Overheads:

- a) Factory Overhead b) Office/Administrative Overhead c) Selling and Distribution Overhead

Classification of Cost:

1. **On the basis of nature/element:** Cost are divided into 3 categories: Materials, Labour and Expenses
 - A) **Materials Cost:** Materials are those commodities which are used by the industry in raw form in order to produce finished goods. In production process, these are mainly two types of materials are used.
 - Direct materials:**
 - Those materials which can be easily identify as per unit, process or job are called direct materials.
 - They become a part of finished goods. Such as timber in furniture, clay in brick, clothes in garments etc.
 - Indirect Materials:** Such materials which cannot be easily identified with an individual cost unit are called indirect materials. Comparatively these are used in very small quantity in production process. For e.g. nails in furniture, threads in garments, adhesive in shoe, consumable like oil, grease lubricants, small tools etc.
 - B) **Labour Cost:** It refers to such cost offered to employees for their contribution toward production process. These are mainly two types of labour.
 - Direct Labour Cost:** Such cost paid to labour for producing finished goods by converting raw material or producing services is called direct labour. It can be easily identified with unit, job or process. It refers to the amount paid to those labour who are engaged in production process so it is also called productive wages. For e.g. wages paid to machine operator, tailor, shoemaker etc.
 - Indirect Labour Cost:** It refers to the wages paid to those labour who are not directly engaged in production function but assist to the production function. But it cannot be easily or conveniently identified with a job, process or unit. For e.g. Salary of supervisor, foreman, inspectors, watchman
 - C) **Expenses:** All the costs which are incurred in production process other than materials and labour are called expenses. There are two types of expenses:
 - Direct Expenses:** Those expenses which are specially incurred for a particular product or process are called direct expenses. For e.g. excise duty, carriage on purchase, cost of hiring machinery, cost of securing contract, cost of designing and drawings layout.
 - Indirect Expenses:** Those indirect costs other than indirect materials and indirect labour are called indirect expenses. These expenses are not directly related with production process. For e.g. rent and rates, depreciation, carriage outward, lighting and heating.
2. **On the basis of function/activities:** Cost is divided into 3 groups.
 - A) **Production Cost/Work Cost:**
 - Production cost is the total amount of cost incurred within the factory premises for obtaining finished product with help of production process. This cost is composed with prime cost + manufacturing expenses.
 - Manufacturing expenses includes indirect labour, indirect expenses relating to production process. It is also called conversion cost.
 - Since, it is incurred for converting raw material into finished product.
 - For e.g. motive power, store consumed, lighting and heating, depreciation of machinery etc.
 - B) **Administrative Cost/Office Cost:**
 - It includes all indirect expenses incurred for administrative work like planning, organising, directing, controlling of the business activity.

- These costs are related with management job of the firm. It also includes office operating expenses.
- For e.g. manager's salary, director fee, legal charge, stationery, bank charge etc.

C) Selling and Distribution Cost:

- It includes all cost incurred for creating demand for product or services.
- Securing orders for goods and service and distribution of goods or services in hand of customers. Selling expenses is related with selling the product and distribution expenses is related with transporting and delivering product from factory to showroom and customers area.
- For e.g. salary of salesman, advertisement, sampling, carriage outward, collection charge, bad debt.

3. On the basis of Variability/Behaviour: Cost is divided into three groups on the basis of variability in nature.

A) Fixed Cost:

- It is a constant cost as non-variable in nature and remains constant (fixed) to the certain range of production volume.
- These costs are period cost. Which are not affected by increase or decrease on volume of output up to certain level of output .
- For e.g. salary, rent, depreciation etc.

B) Variable Cost:

- Variable cost is variable in nature as they change proportionately with the changes in level of output.
- When the no of production increases total variable cost will also increases likewise production decreases the variable cost will decreases but the variable cost per unit remain constant.
- These cost can be easily identify as per unit, job or process.
- For e.g. direct material, direct labour.

C) Semi variable/Semi fixed Cost:

- Those costs which are partly fixed and partly variable in nature are called semi-variable cost.
- These costs are not changed proportionately with the volume of output but change in amount to some extent.
- For e.g. salary of supervisor, salary of inspectors, repair & maintenance etc.

4. On the basis of Controllability: According to it cost are classified into two groups. Controllable and Uncontrollable.

A) Controllable Cost:

- Such costs which can be control by the influence of the decision of management or manager are called controllable cost.
- These cost can be altered or changed by the action of management.
- Variable cost are controllable cost.

B) Uncontrollable Cost:

- Such cost which are not influenced by the decision of the management or a manager are called uncontrollable cost.
- These costs cannot be changed by the action of management.
- Fixed cost are uncontrollable cost.

Limitations of Cost Accounting:

1. There is no uniformity among the manufacturing concern in relation to use same rules or principles of costing.
2. The establishment of separate cost accounting department is costly since it required qualified staffs along with separate room.
3. It just shows details of cost related information but it fails to provide effective solution for controlling and minimising cost of production.
4. The systematic use of cost accounting requires many formalities and estimation while calculating cost of goods or services.
5. It does not show the financial income and expenditure like income others than sale of products and expenses which are not related with production.

ACCOUNTING FOR MATERIALS

Meaning of Material:

- Material is one of the most important elements of manufacturing concern.

- The term material refers to physical commodities (Raw Materials, Subassemblies, fabricating parts, consumable store) used to make finished product from their crude or original form. Sugarcane, wool, rubber, wheat are the examples of raw material.
- It covers the major portion of finished goods and takes about 60% to 70% of total cost in production process.

Types of Material:

Manufacturing process requires input of raw material. It is the main component of product. Basically there are two types of materials: (a) Direct Material (b) Indirect Material

a) Direct Material:

- Those materials which can be easily identified with particular product, job or process are called direct materials.
- It constitutes the main component of finished goods.
- For e.g. leather in shoe, timber in furniture, cotton in textile mill, clay in brick, clothes in garments etc.

b) Indirect Material:

- Those materials which cannot be easily identified with particular job, product or process.
- It is used comparatively in very small quantity in comparison to direct material.
- For e.g. nails used in furniture, thread used in shoe, lubricants, oil, grease, spare-parts for repairs & maintenance are also indirect materials. Which are not becomes the main part of finished goods.

Material Control:

- Material control can be defined as systematic control over purchasing of material and consumption of materials.
- It is also known as inventory control. It helps to maintain a regular and timely supply of materials by avoiding over stocking and under stocking. It ensures the availability of right type of materials, right quality and right quantity of material at right time for production process.
- It helps to reduce the losses and wastage of material by maintaining an efficient purchase of material, efficient storing and efficient use in order to minimise the cost of production as well as over investment upon material stocking.

Need for Material Control/Objectives of Material Control:

1. It ensures quality and quantity of materials whenever required for an efficient and uninterrupted production.
2. It helps to purchase the materials at most reasonable price by considering quantity discount without compromising their quality.
3. It helps to minimise the wastage/losses of materials by theft, fire, leakage etc.
4. It helps to minimise the handling cost & time in storing the materials.
5. It provides information to the management about raw materials, their cost and availability in order to facilitate for the preparation of production & purchasing plan.

Essentials/Requisites of Material Control:

Following are the general requirement of every system of an effective materials control.

1. There should be proper co-ordination among various departments dealing with materials such as purchasing, receiving, inspection, disbursing (distribution).
2. There should be centralized purchasing department with trained and expert personnel.
3. There should be proper perpetual inventory system which reflects physical movement of stock and current balances.
4. There should be use of only standard forms for requisition, order, issue, return of materials.
5. There should be carefully planned material storage facilities to avoid losses from damage, evaporation, theft, deterioration.
6. Maximum, minimum & re-ordering levels for each types of materials should be fixed to ensure that there is no under and overstocking of materials.
7. Re-ordering quantity of each types of material should be fixed to reduce the ordering cost & carrying cost of materials.
8. There should be effective reporting system to provide information about materials purchased, issued from stock, return to suppliers and balance of materials.

Store Routing:

The process set by an organization to control materials is called store routing. It includes all the steps involved in purchasing materials, storing it properly and issuing it to the concerned departments. store routing includes:

1. Purchasing and Receiving of Materials

- a) Request for purchase of materials
- b) Inquiry and tender quotation forms issued to potential suppliers

- c) Selecting the suitable supplier
- d) Placing the order

2. Storing of materials

- a) Classification and codification of materials
- b) Keeping records of the materials in Bin Card and Store Ledger

3. Issuing Material

- a) Requisition form
- b) Pricing of material issued

Purchasing:

The process of transferring ownership of goods and services from supplier to customer by mode of payment is called purchasing. Here, purchasing refers to acquisition of materials of right quality, right quantity, at a right price from the right sources of suppliers. A separate purchasing department should be established to perform purchasing activities. This department determines the quality, quantity, type of material, price of material and time of purchase of material. It also performs purchasing of supplies, tools and machine.

Purchase Control:

- A manufacturing organization is required to invest a huge amount of money in purchasing materials.
- it is important to give due consideration in materials purchasing.
- Purchase control refers to the purchase of materials of right quality in a right quantity at reasonable price and at a right time.
- It requires more attention towards purchasing procedures of materials. Purchasing control starts with the issue of material requisition and ends with the receipts of material & payment of the amount of materials.

Centralised Purchasing:

- Centralised purchasing refers to the purchase of materials by a single purchase department.
- The activity of purchasing and issuing all the materials needed to all the department and branches under a special department with expert staffs.
- Such purchasing made for various departments by a single department is called centralised purchasing. This department is managed & controlled by purchase manager.

Advantages of centralised purchasing:

1. Bulk quantity of materials can be purchased at cheaper rate and at a good discount.
2. The service of an efficient, specialised and experienced purchase executive can be obtained.
3. Better layout of store is possible.
4. It helps to maintain uniformity in purchasing policies.
5. It helps to minimize transportation cost due to bulk quantity of materials purchased.
6. It is easy and economical for recording and accounting of materials. **Disadvantages of centralised**

Purchasing:

1. It requires high initial cost to establish a purchasing department.
2. It may be delay in getting materials from centralised store to various departments.
3. It is not suitable, if branches are located at different geographic location.
4. In case of an emergency situation, materials cannot be purchased from local suppliers.
5. It takes more time to replace the defective materials.

Decentralised Purchasing:

- When the various branches or department of an organization can purchase their requirement individually then such purchasing is called decentralised purchasing.
- Each department can purchase materials immediately whenever required. The draw backs of centralised purchasing can be reduced by decentralised purchasing.

Purchasing and Receiving Procedures:

Different organizations have adopted their own purchase procedures. This procedures vary from one organization to another organization. However the following steps are involved commonly to purchasing and receiving procedures.

1. **Purchase Requisition:** A purchase requisition is a formal request for materials to purchasing department received either from store or from production department. On the basis of purchase requisition, the purchase department can purchase materials and supplies for various department as well as to determine the quantity and types of materials which are to be purchased. Generally printed form are used for this purpose, one copy is sent to purchasing department, second copy is retained in the initiating department and third copy is sent to the accounting department.
2. **Inviting tender or quotations:** After receiving purchase requisition the next step of purchase procedure is to find out the convenient and economical sources of material suppliers. The purchasing department

must maintain the group list of various suppliers with their names and addresses. The purchase department has to offer/invite tender or quotation for selection of right supplier. After receiving various tender or quotation, the supplier who provides qualities material at cheap rate with favourable terms and condition should be selected.

- 3. Purchase Order:** After choosing the supplier, the purchase department prepares purchase order for the supply of materials. A purchase order is a written document, which authorises the supplier to supply the particular materials stored in the order. It is the evidence of contract between buyer and suppliers which restricts the supplier to supply materials under stated terms & condition as well as the buyer to accept and receipts the materials.
- 4. Receiving and Inspecting Material:** In large/big organization a separate department is created for receiving and inspecting the materials received. The receiving department should perform the function of unloading and receiving of material supplies from the supplier. This department has to verify that materials delivered are as per order and are in good condition by comparing purchase order and invoice received for receipt of materials.
- 5. Checking and passing bill for payment:** When the invoice received from the supplier, then it is sent to accounting department for the verification of quantity and the price mentioned in the invoice. After checking the required document, then payment should be made to the supplier of materials.

Store Keeping:

A store refers to raw material, work in progress and finished goods remained in the stock. Store keeping means the activities relating to purchasing and issuing, protecting & storing and maintaining up to date records of materials. The store is a service department which is handled by the storekeeper. He is responsible for proper storage, proper issuing and keeping up to date records of materials.

Objectives of Store Keeping:

1. To avoid the over and under stocking of materials.
2. To protect the materials from losses and damages.
3. To maintain up to date records of materials.
4. To facilitates in quick receipts and issues of stores.
5. To minimise the storage cost of materials.

Types of Store:

There are three types of stores.

- a) *Centralised Store* b) *Decentralised Store* c) *Centralised Store with Sub-store* **a) Centralised Store:**

When there is only one store for all departments of an organization such store is called centralised store.

All the materials required for all departments and branches are stored and issued by only one store.

Advantages:

1. A better supervision of stores is possible as all the materials are kept in a single store.
2. Economy in place, staffs and administrative activities can be maintained.
3. Trained and specified personnel can be appointed.
4. Good layout of store and control are possible.
5. Wastage of materials can be minimised.

Disadvantages:

1. Delay in material delivery (sending) if the department & branches are located far away/spread in wide geographic area.
2. Increases the material handling cost.
3. The risk of loss by fire is greater.
4. Not suitable for large organization.

b) Decentralised Store:

Under this type of storing, each department has its own store. Purchasing and handling of material are undertaken by each and every department separately. Such store are managed to avoid drawbacks of centralised store.

Advantages:

1. Delay in material handling will be eliminated.
2. Minimise the chances of loss by fire.
3. No need of internal transportation cost.
4. Saving in material handling cost.

Disadvantages:

1. Higher cost of supervision.
2. More space is required for individual departments.
3. Higher amount of investment in store.
4. Higher cost of staff & stationery.

5. Improved technique is less possible for controlling of materials.

C) Centralised Store with Sub-store:

Under these types of storing, sub-stores are established in different departments or places as per need of the organization including central store. Such sub-store are managed and controlled by central store. Substores are required for manufacturing companies if the central store is at distance from the production department. At the beginning of a period, the central stores issue a fixed quantity of material to the substore. At the end of the period, sub-store send a filled requisition from to the central store to maintain the stock to a predetermined level.

Advantages:

1. It minimises the drawbacks of centralised store.
2. It offers an easier location for storing of materials.
3. It avoids delay in issuing materials.
4. It helps to reduce the internal transportation cost. **Disadvantages:**
1. It requires high cost of stationery and staffing.
2. It takes high material handling cost.
3. It requires extra setup cost.
4. It takes more time for stock taking.

Location of stores:

Location of store means the place, where stores are situated. The location of stores should be carefully planned for a maximum efficiency. Stores should be located near the material receiving and material using department. Following are the important factor that be considered while deciding the location of store.

1. Store must be placed near to production dept.
2. The store should be located near a road or a railway.
3. The store should be centrally situated so as to be easily accessible.
4. The receiving department should also be in proximity to the store (go down).
5. The stores should be situated in safe places.

Store Keeper:

- Basically, manufacturing companies appoint a person for safeguarding material in a store is called store keeper.
- He is responsible for managing store properly. He is chief person of the store who maintains proper record in regards to receipt & issue of material.
- Frequently, he checks physical quantity of material kept in store and verify with bin card. He also checks and control losses due to evaporation, leakage, theft etc.
- He has to prevent and prohibit the entrance of unauthorized person in the store.

Store Keeping Procedure:

- A. Classification & Codification
- B. Recording of material received
- C. Storing and issuing of material.

A. Classification and Codification of Materials:

Different types of materials are collected in the store. They are kept in store just for meeting the demand of different dept. They are to be stored systematically. Classification & Codification of material is a good step in maintaining stores in a systematic way.

- **Classification of Materials**

Materials are classified in such a way that storing, issuing and identifying of material become easy. Materials are classified on the basis of their nature, their quality and utility. Materials may be classified as raw materials, consumable stores, components, spare and tools.

- **Classification and Codification of Materials**

For the purpose of identification and codification in storage and issue, each item of materials is given a name. Such a process of giving distinct names & symbols to different types of materials is called codification of materials. Generally materials are classified on the basis of nature when all the material belongs to one nature are grouped and then they should be codified, for easy & convenient identification in the store.

Methods of Codification:

1. **Alphabetical:** Under this method, each item of store is denoted by a combination of alphabets. For e.g. Iron rods may be coded by IR, Iron bar may be coded as IB etc. This method is unsuitable when there are large no. of stores.
2. **Numerical Codification:** Under this method, each item is allotted a number. This method is suitable for companies where large numbers of stores are kept. For e.g.

330ml. bottle	001
500ml. bottle	002
1ltr. bottle	003

3. **Alpha-numeric:** Under this method alphabet along with number are given to each item of store. This is a combination of alphabetical and numerical method.

<u>Name of Item</u>	<u>Code</u>
Choco Bar of 4ml	CB 4
Brown bread 100gm	BB 1

Advantages of Classification & Codification:

1. It helps to identify and locate the right items quickly.
2. It helps to ensure proper material control.
3. It helps to maintain secrecy.
4. It avoids the lengthy name of materials for clerical work.

Recording of Material Received:

Following are the important store recording methods that are used for keeping records of the various items of store:

1. **Bin Card:**

- Each shelf, rack or container for storing material is called bin.
- A card which is attached to each bin to records the movement (inflow & outflow) of concerned item is called bin card. It refers to a card used by storekeeper to keep quantitative details of receipts, issues and the balance of materials. It does not record the value of material.
- A separate bin card is prepared for each item of materials.

2. **Store ledger:**

- A store ledger is a record of stock. Which shows the quantitative details of receipts, issues & balance of material along with its monetary value .
- It is maintained by cost accounting dept. It provides information about price of material issue and value of material at any times in the store. For each item of material, separate ledger folio is to be maintained. **Difference between bin card & store ledger:**

BIN CARD	STORE LEDGER
i) It is maintained by the store keeper.	i) It is prepared by cost accounting department.
ii) It shows only the quantitative details in regard to receipts, issues & balances of materials.	ii) It shows quantitative details along with money value in regard to receipts, issues & balances of mat.
iii) Bin cards are kept in stores along with materials.	v) Store ledger is kept outside the stores.
iv) In bin cards, transactions are recorded immediately after the transacting made.	iv) In store ledger, posing of transactions are made in period manner(weekly, fortnightly)
v) It is the primary record of materials	v) It is the secondary record of materials since it is prepared with help of bin card.

Perpetual Inventory System:

- **Perpetual inventory system is a technique of controlling stock items by maintaining store records so that the actual stock of balance can be known at any point of time.**
- It is maintained with an objective controlling department for regular checking of physical movement and current balance of stock.
- It is a method of recording store balances after every receipts & issue in order to facilitate regular checking. Bin card & store ledger are the main basis of perpetual inventory system.

C. Issue of Material:

Preparation and treatment of requisition form.

Material requisition form is a written order to the store keeper to supply materials. The storekeeper received different types of materials and stores from the suppliers and finally issues them to the production department and other concerned department. But the storekeeper must not issue material until a properly authorised material

requisition form is presented to him. Request for the value of material along with signature of authorised person in the prescribed form given to store keeper such form is called material requisition Form.

HIMAL COMPANY LTD.
MATERIAL REQUISITION FORM

Department-----

S.N. No.

Job No -----

Date:

Please issue the following materials:

S. No.	Description of Material	Code No.	Quantity	For Cost Office		Remarks
				Rate	Amount	

Methods for pricing of material issued:

These are various method , in use of pricing issues of materials from store.

1. *First In First Out Method (FIFO)*
2. *Last In First Out Method (LIFO)*

1. **FIFO Method:** In this method, the materials received at first are to be issued first. Materials are issued on a chronological order as on first come first serve basis. The first issues are made from opening stock, next issue from first purchase and so on until the units left in the closing stock.

2. **LIFO Method:** This method follows the principle that the last items of materials purchased are issued at first. The valuation of the materials issued is made, according to the latest purchase price of materials. The closing stock of the materials are valued always on the earliest price of the materials.

HIMAL COMPANY LTD.

BIN CARD

Bin card No. Maximum Level: Name of material

Minimum Level:

Code No. of material: Re-order Level: Store Ledger Folio No.:

Ordering quantity:.....

Receipts			Issues			Balance		
Date	GRN No.	Qty.	Date	Requisition No.	Qty.	Qty.	Stock Verification	
							Date	Initial

HIMAL COMPANY LTD.

STORE LEDGER A/C

Name of Material:

Maximum Level:

Code No.:

Minimum Level:

Bin No.:

Re ordering quantity:

Re-order

Level:

Date	Particulars	Receipts			Issues			Balance	
		Qty.	Rate	Amount	Qty.	Rate	Amount	Qty.	

										Rate	Amount

COMPANY ACCOUNTS

1. **Meaning:** The term 'company' means a group of persons associated together for some common purpose for which major part of capital is collected by selling shares & debentures to public.
2. **Features/Characteristics of a Company:**
 - It has a separate legal identity.
 - It has a perpetual existence.
 - The liability of shareholders is limited.
 - Provision of transferability of share from one to other person. □ Provisions of representative management.
3. **Memorandum of Association:** It is the document of a company which contains fundamental rules regarding the constitution and activities of a company. The contents of memorandum of association are:
 - Name of company
 - Objectives of company
 - Address of the registered office of company and place of operations
 - Nature & liability of its members
 - Authorised capital of company including types of shares
4. **Articles of Association:** It is the document which explains the rules & regulations for internal management of company. It contains,
 - Directors & other job & tenure
 - Number of qualifying shares to become a director
 - Mode of calling the general meeting
 - Rights & duties of managing director
 - Provision relating to the rules & regulation of internal management
5. **Prospectus:**
 - It is the document giving notice, circular, advertisement or other documents inviting the public to subscribe the shares & debentures.
 - It contains –**
 - objectives of company along with other important information as stated in memorandum & articles of association
 - terms & mode of payment, issue of shares on discount or premium
 - matters relating to bonus share
 - rate of brokerage on share & debenture
 - company's financial policy & its networks etc.
6. **Company Promoters:**
 - Persons who plan the formation of a company and bring it into existence are known as promoters.
 - They generate the idea and discover business opportunities. Promoter may be an individual, firm or even the government.
7. **Types of Company:**
 - a) On the basis of ownership: They are two types,
 - i) **Government company:**
 - The company in which government holds 51% & more shares is called government company.
 - For e.g.: Nepal Telecom limited, Udayapur Cement Udyog Ltd, Nepal Bank Limited etc.
 - ii) **Non-government Company:**
 - The company which have no government undertakings are called non-government company.
 - For e.g. N Cell, Surya Nepal company (Pvt) Ltd
 - b) **On the basis of liability:** They are 3 types,
 - i) **Unlimited Company:**
 - It is the company in which the liability of the shareholder is unlimited.
 - ii) **Company limited by shares:**

- It is the company in which liability of the shareholder is limited to the extent of face value of shares purchased.
- iii) **Company limited by guarantee:**
 - The company in which each member promises to pay a fixed sum of money in the event of liquidation is company limited by guarantee.
- c) **On the basis of incorporation:** They are three types,
 - i) **Chartered company:**
 - The company which is formed through the grant of a royal charter are known as chartered company. For e.g. East India Company
 - ii) **Statutory company:**
 - The company formed under the special act of parliament are known as statutory company. For e.g.: Nepal Rastra Bank, NIDC etc.
 - iii) **Registered company:**
 - The company which are established by registering under the provision of company Act are known as registered company.
- d) **On the basis of numbers of members:** They are 2 types,
 - i) **Private company:**
 - The company in which number of members do not exceed fifty & restricts the right of their members to transfer their shares is private company.
 - The privileges of a private company are :-**
 - It can be established by a single person.
 - Refuse the transfer of shares from one member to another
 - It does not need publish a prospectus at the time of issue of its shares.
 - ii) **Public Company:**
 - The company in which, there is no limitation in regards to the maximum number of its members and free to invite the public to subscribe its shares & debentures is called public company.
 - The features of public company are:-
 - Member can freely transfer their shares
 - No limitation regarding the maximum number of its members
 - Minimum number of members must be at least seven.

Advantages of Public Company:

- (a) Provision of transferability of shares (b) Free to invite the public to buy its shares and debentures
 (c) Effective & efficient management (d) Large amount of capital is collected

FINANCIAL STATEMENT ANALYSIS

- Those statement which are prepared at the end of each fiscal year showing operating result (i.e. profit or loss) and financial position of an institution are called financial statement.
- These statements are prepared by trading and manufacturing concern in order to ascertain their position at the end of an accounting period.
- These include profit & loss A/C and balance sheet. Profit & loss A/C (Income Statement) shows the operational result during the period.
- Balance Sheet shows the financial position of the firm for a certain duration. We can know the real position of the business with help of Balance Sheet. In case of company business, Profit & Loss Appropriation A/C , funds flow statement and Cash Flow statement are also included in financial statement.

Contents of a financial statement:

- a) Profit & loss A/C or income statement
- b) Balance Sheet
- c) Statement of retained earnings: It is prepared to show the funds position
- d) Cash flow statement: It is prepared to show the changes in financial position of the firm during the period.

Nature of financial statement:

1. It records the factual data which have been recorded in accounting books.
2. Financial statements are related with past period so they are known as historical record.

3. The financial statements are financial in nature and expressed in terms of money.
4. It indicates financial position through Balance Sheet and the summary of revenue & expenses and net income through Profit & Loss A/C.

Financial Statement Analysis:

- It is the systematic process of analysing and evaluating the relationship between the component parts of financial statement.
- It gives to disclose the financial position, profitability, solvency, liquidity, operational efficiency and growth potentiality of the business.
- The analysis of financial statement is concerned with arranging, classifying & grouping the information or data in such a convenient way that a user can read and understand it easily as well as its provide meaningful information with interpretation that helps for making decision.

Limitations of financial statement:

1. It shows quantitative facts (Not qualitative like: product quality, absenteeism of manager, inferior quality of raw materials, power cut off etc.)
2. Based on historical data.
3. Manipulation of accounts : Financial statements are not free from bias. Management can manipulate financial statement by the way of depreciation, valuation of stock, provision for bad debt etc.
4. Ignores price change: Financial statements are based on historical cost. The valuation of present assets is not accurate.
5. Lack of remedies: Financial statement can disclose the problem and inefficiencies of the business however it fails to provide suggestion for controlling them.

Importance of financial statement analysis:

1. It helps to determine the present profitability. Such as return on investment, net profit margin, return on SHF and earning capacity of business.
2. It helps to judge the liquidity position or ability to pay off its short term liabilities of a business.
3. It also aims to judge the solvency position (long term loan paying capacity) of a business.
4. It helps to measure financial strength & weakness of business.
5. It helps in forecasting and planning for future budget.

Labour Cost Control:

Advantages/Importance of Labour Cost:

- (1) It increases the efficiency of workers.
- (2) It increases the quality of work or product.
- (3) It reduces the labour turnover.
- (4) It reduces labour cost per unit & minimise in production cost per unit
- (5) It facilitates in proper recruitment, selection training of workers as well as offer reasonable remuneration to labour.

Departments involved in controlling Labour Cost

- (1) Personnel Department
- (2) Engineering Department
- (3) Time and motion study Department
- (4) Time keeping Department
- (5) Payroll Department
- (6) Cost accounting Department

- 1) **Engineering Department:** This department is responsible for maintain good working condition in the factory and maintaining control over production methods for each job, process or dept. It prepares plans & specifications for each job. It inspects the job being done at different production stages to ensure that whether they are done as per plan or not. It also conducts research and experimental work.
- 2) **Time and motion study Department:** This department make the studies of time and motion of labour plant operation. It has an important role in job analysis, job evaluation and setting piece rate for different output.
 - Time study is the act of observing and recording the time required to do each detailed element, or part of a given work. It is done after study.
 - Motion study is the study of the movement of a workers in performing the task assigned in order to determine and eliminate wasteful movement. It saves more time by eliminating wasteful tasks & helps to minimise the tiredness of the employees.
- 3) **Time keeping Department:** This department is concerned with the recording of time of each worker engaged in the factory. Every factory has an opening & closing time, launch time, interval time, weekly holiday. These timing is fixed by the management of organization. It keeps the records of workers arrival & departure time. The record of time is maintained by time keeping & time booking dept.
 - Time Keeping:** It refers to recording of arrival & departure time in order to prepare wage sheet for paying remuneration.
 - Time Booking:** It means recording of time for the purpose of cost analysis and apportioning of labour costs over various jobs.

- 4) **Payroll Department:** This department is involved in verifying the time of workers, calculating wages to each worker and preparing the payroll or wage sheet. It prepares payroll, wage sheets for each department separately and distributes wages & salaries to the workers.
- 5) **Cost Accounting Department:** It is concerned with determining the labour cost of each product, process and job. It uses time card, job card and payroll for calculation of the labour cost of various job, work order & process. It prepares wage analysis sheet in order to determine direct labour cost & indirect labour cost.
- 6) **Personnel Department:** This department is engaged with providing various efficient manpower to the organization. It implements the policy of board of directors formulated for employment discharge, classification of employees, wages and wage system. This department starts to recruit the workers when an employee's requisition is received from the department heads. It takes formal application, written exam, and interview in course of recruitment.

SYSTEM OF WAGE PAYMENT

Concept:

- It is the way of giving financial compensation to the workers for the time and efforts contributed by them in converting raw material into finished products.
- System of wages payments are designed to encourage workers to increase their efficiency.
- Thus every organization is required to adopt a fair system of wage payment.

The importance of system of can be shown as follows:

1. It facilitates the preparation of a wage plan for future.
2. It helps to determine the cost of production and profitability of the organization.
3. It determines the amount of earning of the workers and their living standard.
4. It helps in recruiting skilled, experienced and trained workers.
5. It helps to increase the productivity and goodwill of the organization.

Essential features of good wage system:

1. Should be fair and justifiable to the workers and organization.
2. Should help in maximising worker's satisfaction and minimising labour turnover.
3. Should ensure equal pay to equal work.
4. Should follow the govt. policy and trade unions' norms.
5. Should be flexible enough to suit the need of organization.

Basically there are two methods of wage system:

1. **Time rate system:** Under this system, workers are paid according to the time for which they work in the factory. It is the method of remunerating the workers according to the time spent. It pays wages to the workers on hourly or daily or weekly or monthly basis without considering the units of output. Generally there is a higher rate of wage for overtime hours worked by workers.

$$\text{Wages} = \text{No. of hours (day)} \times \text{Rate per hour (day)}$$

Advantages:

- **Quality Focus:** Because pay is not tied to speed, workers often focus more on the quality and craftsmanship of the work.
- **Simplicity:** Easy to calculate and understand for both employers and employees.
- **Income Stability:** Provides a steady, predictable income, which improves worker morale and reduces anxiety.
- **Lower Stress/Safety:** Reduces the pressure to rush, lowering the risk of accidents and promoting better health.
- **Suitable for Complex Tasks:** Ideal for roles where output is hard to measure, such as maintenance or creative work.

Disadvantages:

- **No Incentive to Produce:** Lacks motivation to increase productivity; workers may work slowly.
- **Higher Supervision Needed:** Requires close supervision to prevent wasting time.
- **Inequality Issues:** Efficient workers may feel demoralized if they earn the same as slower, less efficient workers.
- **Increased Costs:** Lower output per worker can increase total labor costs per unit.

2. **Piece rate system:** Under this system, wages are paid to the workers on the basis of quantity of work done by them. A fixed rate is paid for each units produced or job completed. It is the method of remunerating the workers according the no. of output produced by them without considering the time takes by the workers to perform the job.

$$\text{Wages} = \text{Rate per unit} \times \text{No. of units produced}$$

Advantages:

- **Increased Productivity:** Strong incentives motivate workers to increase their speed and output, maximizing production.
- **Direct Link to Effort:** High-performing workers are rewarded for their skill and efficiency.
- **Lower Supervision Required:** Workers are self-motivated to work faster, reducing the need for intensive supervision.
- **Accurate Costing:** Simplifies, direct labor cost calculations per unit.

Disadvantages:

- **Compromised Quality:** High speed may lead to errors, defects, and lower quality products.
- **Unstable Income:** Workers' earnings fluctuate, causing financial insecurity during low-production periods.
- **Safety/Health Risks:** Pressure to produce more can lead to worker burnout, exhaustion, or accidents.
- **Machine/Material Wastage:** Rushing can cause higher rates of material waste and damage to tools.
- **Difficult to Fix Rates:** Establishing a "fair" rate per piece can be complex and contentious.

Difference between piece rate and time rate system:

Piece Rate System	Basis	Time Rate System
i) It does not pay for idle time. ii) Close supervision is not required	Idle time Supervision	i) It pays for idle time. ii) Close supervision is required to ensure that the worker do not waste their time.

iii) It pays the workers according to the units of output produced.	Nature of payment	iii) It pays the worker according to the time spent in the factory.
iv) It gives preference upon large quantity of products.	Preference	iv) It given preference upon producing high quality of product.
v) Wages are directly linked with the efficiency of workers.	Efficiency	v) Wages are not directly linked with the efficiency of workers.

Accounting for Labour:

- Labour cost is one of the major elements of cost.
- It refers to the expenses incurred on both direct and indirect labour.
- This is the amount paid to labour for their physical and mental contribution in converting raw materials into finished goods.

Types of labour cost:

1. **Direct labour cost:** It is the amount paid by the factory for those workers engaged directly in the manufacturing process. It can be identified and allocated to the specific job or process or product. It forms a part of prime cost. For e.g.: wage paid to tailor, carpenter etc.
2. **Indirect labour cost:** It is the amount spent by the factory for those workers who are not engaged directly in the production process. It cannot be conveniently identified on per unit basis. It refers to the expenses incurred in paying the workers who helps direct labour to complete the manufacturing process. For e.g.: wages of storekeeper, watchmen, timekeeper etc.

Classification of overhead:

1. **On the basis of function**
 - a) Factory/Manufacturing overhead
 - b) Office/Administrative overhead
 - c) Selling and distribution overhead
2. **On the basis of Behaviour/Variability**
 - a) Fixed overhead
 - b) Variable overhead
 - c) Semi-variable overhead
3. **On the basis of Element/Nature**
 - a) Indirect material
 - b) Indirect labour
 - c) Indirect expenses
4. **On the basis of control**
 - a) Controllable overhead
 - b) Uncontrollable overhead #

Allocation of overhead:

Allocation of overhead is the process of charging costs to a particular department or cost centre. It is the assignment of the whole item of expenditure to a particular department or cost centre. If the overhead cost is associated with a single department or cost centre then the whole amount is charged or distributed among the units of output of that department. For e.g.: the whole amount of repairs & maintenance expenses for a machine is charged or allocated to that department where the machine has been installed.

Apportionment of overhead:

There are certain no of overheads, which are common to a number of department or cost centre. They cannot be directly identified or allocated to a particular department or cost centre. The distribution of such overhead to several department or cost centre proportionately or some equitable basis is known as apportionment of overhead. For e.g.: salary paid to general manager should be divided into factory, office & selling overhead since he looks all department electricity, rent are common expenses.

Absorption of overhead:

The process of charging the overhead to individual unit of specific product is known as absorption of overhead. In means, the process of ascertaining the total overhead cost of each unit of or job by using overhead rate is known as the absorption or overhead.

The two popular method of absorption of overheads are labour hour rate and machine hour rate.

$$\rightarrow \text{Overhead rate per labour hour} = \frac{\text{Total overhead}}{\text{Total labour hours}}$$

(In this method, overhead are apportioned on the basis of labour hours consumed by a job.)

$$\rightarrow \text{Overhead rate per machine hour} = \frac{\text{Total overhead}}{\text{Total machine hours}}$$

(In this method, overhead are apportioned on the basis of machine hours charged to a job.)

Difference between Allocation & Apportionment of overhead:

Allocation of overhead	Apportionment of overhead
i) The process of charging the whole item of cost to a particular department or cost centre is allocation of overhead.	i) The process of charging the cost to a number of department or cost centre is apportionment of overhead.
ii) It is based on direct distribution	ii) It is distributed on some equitable basis like labour hour rate, machine hour rate etc.
iii) It is applicable when the overhead cost is associated with a single dept or cost centre.	iii) It is applicable when the overhead cost is associated with two or more the two department or cost centre,
iv) It deals with the whole items of cost.	iv) It deals with the portion of total overhead cost.

accounting

computer:

The computer is an electronic computerized Systemstantial computations including numerous arithmetic and logic operation.

it is the most powerful and reliable device that man has ever made

What is Computerized Accounting System?

computerized accounting System refers to the processing of accounting transaction through the use of computer in order to produce accounting records and reports.

A computerized accounting system is an accounting information system that processes the financial transactions and events to produce reports as per requirements.. It is a software programme which collects,stores and analyzes the accounting date.It is based on the concept of data base and has two basic requirements:

(a) Accounting framework and

(b) Operating Procedure produce reports as per user restem 'which collects, stores and analyzes the accounting date. It is

Elements of Computerized system

1. Hardware:

- It is the physical part or component of the computer or the components that can be seen or touched are called hardware of the computer. The four types of hardware:
- Input hardware
- Output hardware
- Processing hardware
- Memory hardware

2. Software:

- Software is the core of a computerized accounting system. It is the set of programs which is required to operate the hardware. The hardware has no use without software. Different types of software are :System software, Application software utility software.

Importance/Advantages of Computerized Accounting System:

- Faster processing
- Accurate information
- Reliability
- Up-to-date
- Security
- Efficiency
- Automated document production
- Cost effective
- Quality reports

Limitations of Computerized Accounting System

- Cost of training
- Staff Opposition
- Disruption
- System failure
- Fear of unemployment
- Effects on health
- Inability to check unanticipated errors
- Heavy cost of Installation

Uses of computer in Accounting

1. Ease of communication
2. Spreadsheet Software
3. Data Storage
4. Programmed Transactions
- 5 Financial information

Application of Software in Accounting

- Application of Software is an important part of computerized accounting system.
- It is implemented to perform the accounting activity and generate reports as per the requirements of user.
- Accounting software describes a type of application software that rec records and processes accounting transactions within functional modules such as accounts payable, accounts receivable, journal, ledger, payroll, profit and loss account and balance sheet

Use of Accounting Software

- Improve accounting accuracy
- Speed up the accounting calculations
- Reduce overall cost by reducing payroll roll and administrative cost
- Improve data security
- Generate accurate reports
- Increase accounting transparency
- Enhance productivity
- Maintain better relationships with the customers

Language of Software Processor

- **Assembler :** The assembler is used to translate the software written in assembly language into machine code.
- **Compiler :** It is a software that translates the instructions at higher level languages to machine language.
- **Interpreter :**
It is another type of software translator used to translating higher level of language instructions into machine language instruction.

Need and Features of Accounting Software

- Flexibility
- Cost of maintenance
- Size of organization
- Increase efficiency
- Reduced overall cost
- Security and protection
- Transfer of data

Accounting software can be classified into three categories:

- Readymade Software
- Customised software
- Tailor-made-software

A) READYMADE SOFTWARE

- Readymade softwares are the software that is developed not for any specific user but for the users in general.
- It is suitable for a small organisation where the volume of accounting transactions is very low.
- Readymade softwares are Economical
This software is easy to learn.

B) CUSTOMISED SOFTWARE

- Customised Software means making changes in the readymade software to suit the specific requirements of the user.
- It is suited for large and medium business.
- The cost of installation and maintenance is relatively high.
- The vendor has to be paid for customisation.
- Secrecy of data and software can be better maintained.
The training costs are high as users have to be trained for using the software.

C) TAILOR-MADE SOFTWARE

- It is a software that is specially developed for some specific organisation or for other users.

- It is an important part of MIS.
- It is developed for the large business organisation with multi-users.
This software requires specialised training to users.

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