



# FUNDAMENTALS OF COST ACCOUNTING

Dr. S. N. Maheshwari



Sultan Chand & Sons

*Fundamentals of*  
**COST ACCOUNTING**  
**TEXT**

*For B.Com., B.Com. (Hons.), B.Com. (General) and  
Other Professional Courses*

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**Author's Acknowledgement:** The writing of a Textbook always involves creation of a huge debt towards innumerable authors and publications. We owe our gratitude to all of them. We acknowledge our indebtedness in extensive footnotes throughout the book. If, for any reason, any acknowledgement has been left out we beg to be excused. We assure to carry out correction in the subsequent edition, as and when it is known.

# Preface

I am very happy to present before our esteemed readers the book “Fundamentals of Cost Accounting”. The book has several distinctive features as enumerated below:

- It covers comprehensively the course content requirements of the students appearing in B.com., B.B.A. (As per NEP) of all Indian Universities and other Professional Courses.
- The text matter has been accompanied with adequate illustrative material which makes the study of the subject interesting and readily understandable.
- The book has been written in simple, straight and lucid style.
- A new chapter on “ Emerging Trends in Cost Accounting “ has been added for the Students.
- At the end of each chapter Test Questions and Practical Problems have been given for recapitulation and better rasp over the subject.
- The book follows an examination-oriented approach.

The book contains up-to-date previous examination Question Papers with Solutions.

I am confident with all these PLUS features the readers will find the book useful and rewarding for them. Constructive and helpful suggestions for improvement in the book will be gratefully acknowledged.

**Dr. S.N. MAHESHWARI**

# Syllabus

## Tamil Nadu State Council for Higher Education

According to National Education Policy (NEP) – 2020

B.Com. (General), Third Year – Semester – V

Core – IX: Cost Accounting-I

**Unit I: Introduction of Cost Accounting** – Definition – Nature and Scope – Principles of Cost Accounting – Cost Accounting and Financial Accounting – Cost Accounting vs. Management Accounting – Installation of Costing System – Classification of Costs – Cost Centre – Profit Centre.

**Unit II: Cost Sheet and Methods of Costing** – Preparation of Cost Sheet – Tenders & Quotations – Reconciliation of Cost and Financial Accounts – Unit Costing – Job Costing.

**Unit III: Material Costing** – Material Control – Meaning and Objectives – Purchase of Materials – *EOQ* – Stores Records – Reorder Levels – *ABC* Analysis – Issue of Materials – Methods of Issue – *FIFO* – *LIFO* – Base Stock Method – Specific Price Method – Simple and Weighted Average Method.

**Unit IV: Labour Costing** – Direct Labour and Indirect Labour – Time Keeping – Methods and Calculation of Wage Payments – Time Wages – Piece Wages – Incentives – Different Methods of Incentive Payments – Idle time – Overtime – Labour Turnover – Meaning, Causes and Measurement.

**Unit V: Overheads Costing** – Overheads – Definition – Classification – Allocation and Apportionment of Overheads – Basis of Apportionment – Primary and Secondary Distribution – Absorption of Overheads – Methods of Absorption – Preparation of Overheads Distribution Statement – Machine Hour Rate – Computation of Machine Hour Rate.

B.Com. (General), Third Year – Semester – VI

Core – XIII: Cost Accounting – II

**Unit I: Cost Accounting Standards** – An Introduction to CAS – Purpose of CAS – Advantages of CAS – Difference between CAS and FAR Regulations – Different Degrees of CAS Coverage – Cost Accounting Standards – Responsibility Accounting and Divisional Performance Measurement.

**Unit II: Contract Costing** – Definition – Features of Contract Costing – Calculation of Profit on Contracts – Cost Plus Contract – Contract Costing and Job Costing – A Comparison – Preparation of Contract A/c.

**Unit III: Process Costing** – Process Costing – Meaning – Features of Process Costing – Application of Process Costing – Fundamental Principles of Process Costing – Treatment of Loss and Gain : Normal and Abnormal Loss – Abnormal Gain – Joint Products, By-Products – Concept of Equivalent Production – Process Accounts – Process Losses and Gains.

**Unit IV: Operation Costing** – Operation Costing – Meaning – Preparation of Operating Cost Sheet – Transport Costing – Power Supply Costing – Hospital Costing – Simple Problems.

**Unit V: Standard Costing** – Definition – Objectives – Advantages – Standard Cost and Estimated Cost – Installation of Standard Costing – Variance Analysis – Material, Labour, Overhead, and Sales Variances – Calculation of Variances.

## Bangalore University

According to National Education Policy (NEP) – 2020

Bachelor of Commerce (B.Com.)

B.Com. 4.2, Semester IV, Cost Accounting

**Module 1: Introduction to Cost Accounting** – Introduction, Meaning and Definitions of Cost, Costing and Cost Accounting. Need and Objectives of Cost Accounting. Distinctions between Financial Accounting and Cost Accounting. Advantages and Limitations of Cost Accounting. Classification of Cost – Material Cost, Labour Cost and Overheads. Important terminologies, Cost Unit, Cost Center, Direct Cost, Indirect Cost, Prime Cost, Production Cost, Administration Cost, Selling and Distribution Cost, Fixed Cost, Variable Cost, Semi-variable Cost, Period Cost, Product Cost, Explicit Cost, Implicit Cost, Historical Cost, Current Cost, Future or Predetermined Cost, Opportunity Cost. Installation of Cost Accounting System – Features of good cost accounting system, Precautions for installing effective cost accounting system, Challenges in installing effective cost accounting system. Cost Sheet – Meaning, Objectives and Contents of Cost Sheet – Problems on preparation of Cost Sheet, Tenders & Quotations.

**Module 2: Material Costing** – Introduction, Meaning of Material Cost, Types of Materials – Direct Materials, Indirect Materials. Material Cost Control – Meaning, Objectives and Benefits. Scope of Material Cost Control – Procurement, Storage and Management of Issues. Make or Buy Decision, Purchase Process, Vendor Selection, Economic Order Quantity. Problems on *EOQ*. Documents – Bill of Materials, Material, Requisition Note, Purchase Requisition, Purchase Order, Goods Received Note, Bin Cards, Stores, Ledger, Material Return Note, Material Outward Return Note. Methods of Stores or Inventory Control – *ABC* Method, *VED* Method and *FSN* Method. Determination of Stock Levels – Re-order Level, Minimum Level, Maximum Level, Average Level and Danger Level, Problems on Stock Levels. Duties and Responsibilities of Stores Manager. Pricing of Material Issues – Specific Price Method, First-In-First-Out Method (*FIFO*), Last-In-Last-Out Method (*LIFO*), Highest-In-First-Out Method (*HIFO*), Simple Average Method, Weighted Average Method, Base Stock Method, Replacement Cost Method, Realizable Price Method, Standard Price Method, Inflated Price Method. Problems under First-In-First-Out Method (*FIFO*), Last-In-Last-Out Method (*LIFO*), Simple Average Method and Weighted Average Method.

**Module 3: Labour Costing** – Introduction, Meaning of Labour Cost, Types of Labour – Direct Labour, Indirect Labour – Labour Cost Control – Meaning, Objectives and Benefits. Scope of Labour Cost Control Departments involved, Time Analysis or Work Study, Time Keeping and Time Booking, Payroll Procedure, Idle Time, Over Time, Labour Turnover, Wage and Incentive Systems – Simple Time Rate System, Straight Piece Rate System, Taylor’s Differential Piece Rate System, Merrick’s Differential Piece Rate System, Halsey System and Rowan System. Job Evaluation and Merit Rating, Labour Productivity. Problems on calculation of Labour Cost, Overtime Wages and Wage and Incentive Systems.

**Module 4: Overhead Costing** – Introduction, Meaning of Overhead, Classification of Overhead Factory Overhead, Administrative Overhead, Selling Overhead, Distribution Overhead, Research and Development Overhead. Accounting and Control of Overheads. Cost Allocation and Cost Apportionment. Methods of Cost Re-apportionment – Direct Method, Step-ladder Method, Repeated Distribution Method, Simultaneous Equation Method. Problems on Apportionment of production overheads and problems on Re-apportionment of production overheads under Direct Method and Simultaneous Method.

**Module 5: Reconciliation of Financial and Cost Accounts** – Introduction – Meaning of Reconciliation, Reasons for Differences in Profits under Financial and Cost Accounts; Procedure for Reconciliation – Ascertainment of Profits as per Financial Accounts and Cost Accounts and Reconciliation of Profits of both sets of Accounts – Preparation of Reconciliation Statement, Memorandum Reconciliation Account – Problems.



# Sultan Chand & Sons useful Books for

**B.Com & BBM / BBA / BBS of All Indian Universities & Diploma Courses**

Management	L.M. Prasad L.M. Prasad L.M. Prasad L.M. Prasad Amandeep Nahar, P.C.K. Rao & Rajesh Kumar Nigah Y.K. Bhushan	<i>Principles and Practice of Management</i> <i>Organizational Behaviour</i> <i>Human Resource Management</i> <i>Strategic Management</i> <i>Organisational Behaviour</i>	Mathematics/Statistics	S.P. Gupta S.P. Gupta & M.P. Gupta Kanti Swaroop, P.K. Gupta & Man Mohan V.K. Kapoor D.C. Sancheti & V.K. Kapoor D.C. Sancheti & V.K. Kapoor S.P. Gupta, Man Mohan & P.K. Gupta S.P. Gupta & P.K. Gupta S.C. Gupta & V.K. Kapoor S.C. Gupta & V.K. Kapoor S.C. Gupta & V.K. Kapoor	<i>Statistical Methods (All Courses)</i> <i>Business Statistics</i> <i>Operations Research</i> <i>Operations Research</i> <i>Business Mathematics (All India)</i> <i>Statistics (All India)</i> <i>Business Statistics &amp; Operations Research</i> <i>Quantitative Techniques and Operations Research (NEP)</i> <i>Fundamentals of Mathematical Statistics</i> <i>Fundamentals of Applied Statistics</i> <i>Elementary Mathematical Statistics</i>
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