CMA FOUNDATION – COST ACCOUNTING

LAST-MINUTE REVISION CRUX (100% Exam-Oriented)

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BASICS OF COST ACCOUNTING

1 Cost

Definition

Cost is the **amount of money spent** to make a product or provide a service.

Simple Example

To make **1 burger**, a shop spends:

- Bread: ₹20
- Patty: ₹40
- Gas: ₹5
- Labour: ₹10

📌 **Total cost = ₹75**

2 Cost Centre

Definition

A cost centre is a **place, machine, or person where cost is collected**.

It helps track **where money is being spent**.

Simple Examples

- **Machine No. 2** in a factory
- **Cutting Department**
- **Canteen**
- **Maintenance room**

All costs spent on that place/person/machine are recorded separately.

3 Cost Object

Definition

A cost object is **anything for which we want to know the cost**.

It can be a **product, service, department, customer, project** etc.

Simple Examples

- 1 shirt
- 1 project
- 1 hospital patient
- 1 batch of cookies

📌 If you want to know the cost of "1 shirt", then **shirt = cost object**.

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4 Cost Unit

Definition

A cost unit is the **unit of measurement** for cost.

It tells you **cost per what?**

Simple Examples

Industry	Cost Unit
Transport	Passenger-km / tonne-km
Hotel	Per room-night
Electricity	Per kilowatt-hour
Textile	Per metre of cloth
Cement	Per tonne

Example:
If a bus carries 50 passengers for 10 km →

Cost unit = **Passenger-km**
Passenger km = 50 × 10 = **500 passenger-km**

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5 Cost Driver

Definition

A cost driver is a **factor that causes cost to increase or decrease**.

It "drives" the cost.

Simple Examples

- More machine hours → more electricity cost
- More labour hours → more labour cost
- More orders → more packaging cost
- More distance → higher transport cost

📌 Cost driver for electricity: **machine hours used**

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6 Cost Allocation

Definition

Cost Allocation means assigning a **cost directly to a specific cost centre** because it belongs only to that department.

Simple Example

- Salary of the **painting department supervisor** → goes only to Painting Dept
- Depreciation of **Machine 1** → goes only to Machine 1 cost centre

📌 Direct assignment of cost.

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7 Cost Apportionment

Definition

Cost apportionment means **sharing a common cost** among different departments **on a fair basis**.

Used when the cost **cannot be directly traced** to only one department.

Simple Examples

- Factory rent shared based on **floor area**
- Electricity bill shared based on **machine hours**
- Canteen expense shared based on **number of employees**

📌 Common cost → distributed fairly.

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8 Cost Accountancy

Definition

Cost Accountancy is the **total system** of:

- Cost Accounting
- Cost Control
- Cost Audit
- Cost Management
- Cost Reporting

It deals with **recording cost, reducing cost, and helping management decisions**.

Simple Example

Company wants to **lower production cost**.
Cost Accountancy provides:

- Proper cost records
- Identifies wastage
- Suggests improvements
- Gives reports to management

9 Cost Accounting

Definition

Cost Accounting is the process of **recording, classifying, and analysing** all costs of materials, labour and overheads.

It tells the **exact cost of producing each product.**

Simple Example

To produce **1 chair**, cost accounting calculates:

- Wood: ₹300
- Labour: ₹150
- Overheads: ₹100
  📌 **Total cost = ₹550**

Cost Accounting = Cost ascertainment + Cost control + Cost reduction + Decision-making.

Key Terms

- **Cost – Expenditure incurred to produce goods/services.**
- **Costing – Techniques to determine cost.**
- **Cost Accounting – Recording + Classifying + Analysing cost.**
- **Cost Centre – Location/person/activity where cost is accumulated.**
- **Cost Unit – Unit of product/service (e.g., kg, litre, tonne-km).**
- **Cost object** = thing whose cost we want
- **Cost driver** = factor causing cost
- **Cost allocation** = direct assignment
- **Cost apportionment** = fair share of common cost
- **Cost accountancy** = full cost system (control + audit + management)

Important Concepts

- Prime Cost – Direct material + Direct labour + Direct expenses
- Overheads – Indirect material + Indirect labour + Indirect expenses
- Conversion Cost – Direct labour + Factory OH
- Production Cost – Prime cost + Factory OH

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10. CLASSIFICATION OF COST

By Nature

- Direct cost
- Indirect cost

By Behaviour

- Fixed
- Variable
- Semi-variable

By Function

- Production
- Administration
- Selling
- Distribution

By Time

- Historical
- Predetermined

By Decision Making

- Relevant
- Irrelevant

- Opportunity cost
- Sunk cost

11 UNIT / OUTPUT COSTING

Used by: Cement, Brick, Steel, Sugar.

Cost Sheet (Theory Only)

- Prime Cost
- Factory Cost
- Cost of Production
- Cost of Goods Sold
- Cost of Sales

12. JOB & BATCH COSTING

Job Costing

Used for special, tailor-made jobs.
Job cost sheet = materials + labour + overheads.

Batch Costing

A batch = group of identical units.
Used in: toys, components, bakery.

13. CONTRACT COSTING

Used for large, long-term contracts.

Important Terms

- Work certified
- Work uncertified

- Progress payments
- Retention money
- Notional profit

(Only concepts needed for CMA Foundation.)

14. PROCESS COSTING

Used in continuous production (oil, paint, chemicals).

Key Points

- Each process has its own account
- Normal loss = unavoidable
- Abnormal loss/gain → transferred to P&L
- Transfer of cost → Process I → II → III

15. OPERATING / SERVICE COSTING

Used for transport, hospitals, hotels, powerhouses.

Cost Units

- Transport → passenger km / tonne km
- Hotel → room night
- Hospital → bed day

SUPER-QUICK 30-SECOND REVISION

- Cost = expenditure to produce
- Cost Accounting = cost ascertainment + control
- Prime Cost = DM + DL + DE
- Overheads = indirect cost

- Material control → ABC, EOQ, stock levels
- Labour → idle time, overtime, bonus plans
- Overheads → allocation, apportionment, absorption
- Cost Sheet → output costing
- Job = tailor-made | Batch = identical units | Process = continuous
- Contract = long period
- Operating = services
- Reconciliation → match cost & financial profits

TEST YOUR SELF

1. Cost means:

a) Profit earned

b) Money spent to produce goods/services

c) Selling price of goods

d) Income received

Answer: b) Money spent to produce goods/services

Explanation: Explanation: Cost is the expenditure incurred to make a product or service.

2. Which is an example of cost?

a) Discount received

b) Factory rent

c) Interest income

d) Penalty received

Answer: b) Factory rent

Explanation: Explanation: Factory rent is an expense and part of cost.

3. A cost centre is:

a) A unit of output

b) A place/person where cost is collected

c) A profit-making unit

d) A customer

Answer: b) A place/person where cost is collected

Explanation: Explanation: Cost centres accumulate and track costs.

4. Which of the following is a cost centre?

a) A shirt

b) An invoice

c) Painting Department

d) Transport cost

Answer: c) Painting Department

Explanation: Explanation: A department where cost occurs.

5. Cost object refers to:

a) Only departments

b) Anything for which cost is measured

c) Only services

d) Only machines

Answer: b) Anything for which cost is measured

Explanation: Explanation: Can be product/service/project.

6. Identify the cost object:

a) Supervisor

b) Cutting dept.

c) 1 shirt

d) Machine no.1

Answer: c) 1 shirt

Explanation: Explanation: A cost object is whatever cost we want to measure.

7. Cost unit means:

a) Total cost incurred

b) Measurement unit for cost

c) Total sales

d) Net profit

Answer: b) Measurement unit for cost

Explanation: Explanation: Expresses cost per unit (kg, litre, metre).

8. 'Per tonne' is cost unit for:

a) Sugar mill

b) Cement industry

c) Hospital

d) Hotel

Answer: b) Cement industry

Explanation: Explanation: Cement measured per tonne.

9. A cost driver is:

a) A factor causing cost changes

b) A revenue item

c) A profit indicator

d) A payment to workers

Answer: a) A factor causing cost changes

Explanation: Explanation: Cost drivers increase/decrease cost.

10. Labour hours drive:

a) Electricity cost

b) Labour cost

c) Rent

d) Advertising cost

Answer: b) Labour cost

Explanation: Explanation: More labour hours → more labour cost.

11. Cost allocation means:

a) Sharing common cost

b) Directly assigning cost to one department

c) Charging cost to P&L

d) Distributing revenue

Answer: b) Directly assigning cost to one department

Explanation: Explanation: Allocation = direct cost assignment.

12. Example of cost allocation:

a) Rent shared by area

b) Electricity shared by usage

c) Supervisor salary to Painting Dept.

d) Canteen cost shared

Answer: c) Supervisor salary to Painting Dept.

Explanation: Explanation: It belongs only to that one department.

13. Cost apportionment means:

a) Allocating direct cost

b) Sharing common costs among departments

c) Only Factory OH

d) Dividing profits

Answer: b) Sharing common costs among departments

Explanation: Explanation: Apportionment = fair distribution.

14. Rent shared by floor area:

a) Allocation

b) Apportionment

c) Absorption

d) Marginal costing

Answer: b) Apportionment

Explanation: Explanation: Common cost shared fairly.

15. Cost accounting deals with:

a) Recording & analysing cost

b) Recording only incomes

c) Preparing financial statements

d) Calculating GST

Answer: a) Recording & analysing cost

Explanation: Explanation: Determines cost per unit.

16. Cost accounting helps determine:

a) Depreciation

b) Cost per unit

c) Income tax payable

d) Dividends

Answer: b) Cost per unit

Explanation: Explanation: Main purpose of cost accounting.

17. Cost accountancy includes:

a) Only cost accounting

b) Cost accounting + cost control + cost audit

c) Only standard costing

d) Only decision making

Answer: b) Cost accounting + cost control + cost audit

Explanation: Explanation: Complete cost system.

18. Main aim of cost accountancy:

a) Increase product price

b) Assist cost control & efficiency

c) Increase taxes

d) Prepare external accounts

Answer: b) Assist cost control & efficiency

Explanation: Explanation: Helps reduce cost & improve efficiency.

19. Identify cost driver:

a) Labour hours

b) Selling price

c) Profit after tax

d) Dividend payable

Answer: a) Labour hours

Explanation: Explanation: Labour hours drive labour cost.

20. 'Per bed-day' is cost unit for:

a) Hotel

b) Hospital

c) Transport

d) Sugar mill

Answer: b) Hospital

Explanation: Explanation: Hospital cost unit = bed-day.

COST SHEET REVESION FOR PRACTICLES

1 Meaning of Cost Sheet

A **Cost Sheet** is a statement that **summarises all costs** incurred for producing a product during a period.

☞ It shows:

- **Prime Cost**
- **Factory Cost**
- **Cost of Production**
- **Cost of Goods Sold**
- **Cost of Sales**
- **Profit or Loss**

Why needed?

- Fixing selling price
- Cost control
- Comparison of cost over periods
- Decision-making

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2 Components of Cost Sheet

Cost Sheet follows a sequence of **cost build-up**:

(A) Direct Costs (Prime Cost)

1. **Direct Material (DM)**
2. **Direct Labour (DL)**
3. **Direct Expenses (DE)**

▨ **Prime Cost = DM + DL + DE**

(B) Factory/Production Cost

4. **Factory Overheads** (indirect material, indirect labour, factory expenses)
5. **Add: Opening Work-in-Progress (WIP)**
6. **Less: Closing WIP**

Factory Cost = Prime Cost + Factory OH ± WIP Adjustment

(C) Cost of Production

7. **Add: Administrative Overheads (related to production)**

Cost of Production (COP) = Factory Cost + Office/Admin OH

(This is the cost of goods *manufactured*.)

(D) Cost of Goods Sold (COGS)

8. **Add: Opening Finished Goods**
9. **Less: Closing Finished Goods**

COGS = COP + Opening FG – Closing FG

(E) Cost of Sales

10. **Add: Selling & Distribution Overheads**

Cost of Sales = COGS + Selling & Distribution OH

(F) Profit/Loss

11. **Add Profit (%)** OR subtract loss.

Selling Price = Cost of Sales + Profit

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3 FORMAT OF COST SHEET (Exam Format)

PARTICULARS	AMOUNT (₹)
1. Direct Material Consumed	
Opening Stock of Raw Material	
+ Purchases	
– Closing Stock of Raw Material	
Direct Material Consumed	xxx
2. Direct Labour	xxx
3. Direct Expenses	xxx
➞ PRIME COST	xxx
4. Add: Factory / Works Overheads	xxx
5. Add: Opening WIP	xxx
6. Less: Closing WIP	(xxx)
➞ FACTORY / WORKS COST	xxx
7. Add: Office & Administration Overheads	xxx
➞ COST OF PRODUCTION	xxx
8. Add: Opening Finished Goods	xxx
9. Less: Closing Finished Goods	(xxx)
➞ COST OF GOODS SOLD (COGS)	xxx
10. Add: Selling & Distribution Overheads	xxx
➞ COST OF SALES	xxx
11. Add: Profit	xxx
➞ SALES / SELLING PRICE	xxx

4 RELATED TOPICS

1. Direct vs Indirect Costs

Direct Cost	Indirect Cost
Traceable to product	Not traceable to one product
DM, DL, DE	Indirect material, indirect labour
Part of Prime Cost	Part of Overheads

2. Overheads

Indirect costs grouped as:

- **Factory OH** → power, factory rent, supervisor salary
- **Office OH** → admin salary, office rent
- **Selling OH** → advertising, packing, salesman salary
- **Distribution OH** → warehouse, delivery van expenses

3. Work-in-Progress (WIP)

Production not completed

- Opening WIP → **added**
- Closing WIP → **deducted**

4. Cost of Production vs Cost of Goods Sold

- **COP** = cost of goods *manufactured*
- **COGS** = cost of goods *sold*

(Inventory adjustments differentiate them.)

5 FULL NUMERICAL EXAMPLE (Simple & Clear)

Problem

A factory gives the following data for 1 month:

- Opening Raw Materials = ₹20,000
- Purchases = ₹1,00,000
- Closing Raw Materials = ₹10,000
- Direct Labour = ₹40,000
- Direct Expenses = ₹5,000
- Factory Overheads = ₹30,000
- Opening WIP = ₹8,000
- Closing WIP = ₹4,000
- Office OH = ₹12,000
- Opening Finished Goods = ₹15,000
- Closing Finished Goods = ₹10,000
- Selling & Distribution OH = ₹18,000
- Profit = 20% of Cost of Sales

Solution: Prepare Cost Sheet

Step 1 — Prime Cost

Direct Material Consumed:
20,000 + 1,00,000 – 10,000 = **₹1,10,000**

Prime Cost =
1,10,000 + 40,000 + 5,000 = **₹1,55,000**

Step 2 — Factory Cost

Factory OH = 30,000

Factory Cost =
1,55,000 + 30,000 + 8,000 – 4,000
= **₹1,89,000**

Step 3 — Cost of Production

COP = 1,89,000 + 12,000
= **₹2,01,000**

Step 4 — COGS

COGS =
2,01,000 + 15,000 – 10,000
= **₹2,06,000**

Step 5 — Cost of Sales

Cost of Sales =
2,06,000 + 18,000
= **₹2,24,000**

Step 6 — Profit & Sales

Profit = 20% of cost of sales
= 20% × 2,24,000 = **₹44,800**

Selling Price =
2,24,000 + 44,800
= **₹2,68,800**

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6 SUPER QUICK REVISION (Exam Crux)

- **Prime Cost = Direct Costs**
- **Factory Cost = Prime Cost + Factory OH ± WIP**
- **Cost of Production = Factory Cost + Office OH**
- **COGS = COP ± Finished Goods**
- **Cost of Sales = COGS + Selling & Distribution OH**
- **Selling Price = Cost of Sales + Profit**
- **Direct = traceable; Indirect = overhead**
- **WIP adjustments change factory cost**