

Introduction to the costing system

- Cost unit: a quantitative unit of a product or service in relation to which costs are ascertained is known as cost unit

Example : canteen - meal plate

Cement: per ton or per bag

Televisions: number

- Cost centre: It is a location, person or item for which costs may be ascertained

Cont.

It is an area of activity for which cost information are to be ascertained separately

Examples:

- Production department , sales department



Ways of classification of costs on the basis of their common characteristics are:

- 1. By nature or element
- 2. By functions
- 3. By identifiably
- 4. By variability
- 5. By controllability
- 6. By normality
- 7. Other Costs

1. BY NATURE OR ELEMENT



MATERIAL COST

Cost of materials used for the manufacture of a product, a particular work order, or provision of a service.

Example: Cloth for making a dress, stores used for maintaining machines and buildings such as lubricants, cotton waste, bricks etc.



LABOUR COST

Labour cost is defined as the total expenditure borne by employers in order to employ workers. Labour costs include the direct costs linked to remuneration for work carried out such as direct remuneration, bonuses and ex gratia payments not paid at each pay period, payments for days not worked, severance pay, benefits in kind. They also include indirect costs linked to employees, independently of the remuneration paid by the employer, such as direct social benefits, vocational training



EXPENSES

Expense is defined as money expended or cost incurred in a firm's efforts to generate revenue, representing cost of doing business. They may be in the form of actual cash payments (such as wages and salaries), a computed 'expired' portion (depreciation) of an asset, or an amount taken out of the firm's earnings (such as bad debts).

Whereas all expenses are costs, not all costs (such as those incurred in acquisition of income generating assets) are expenses.

