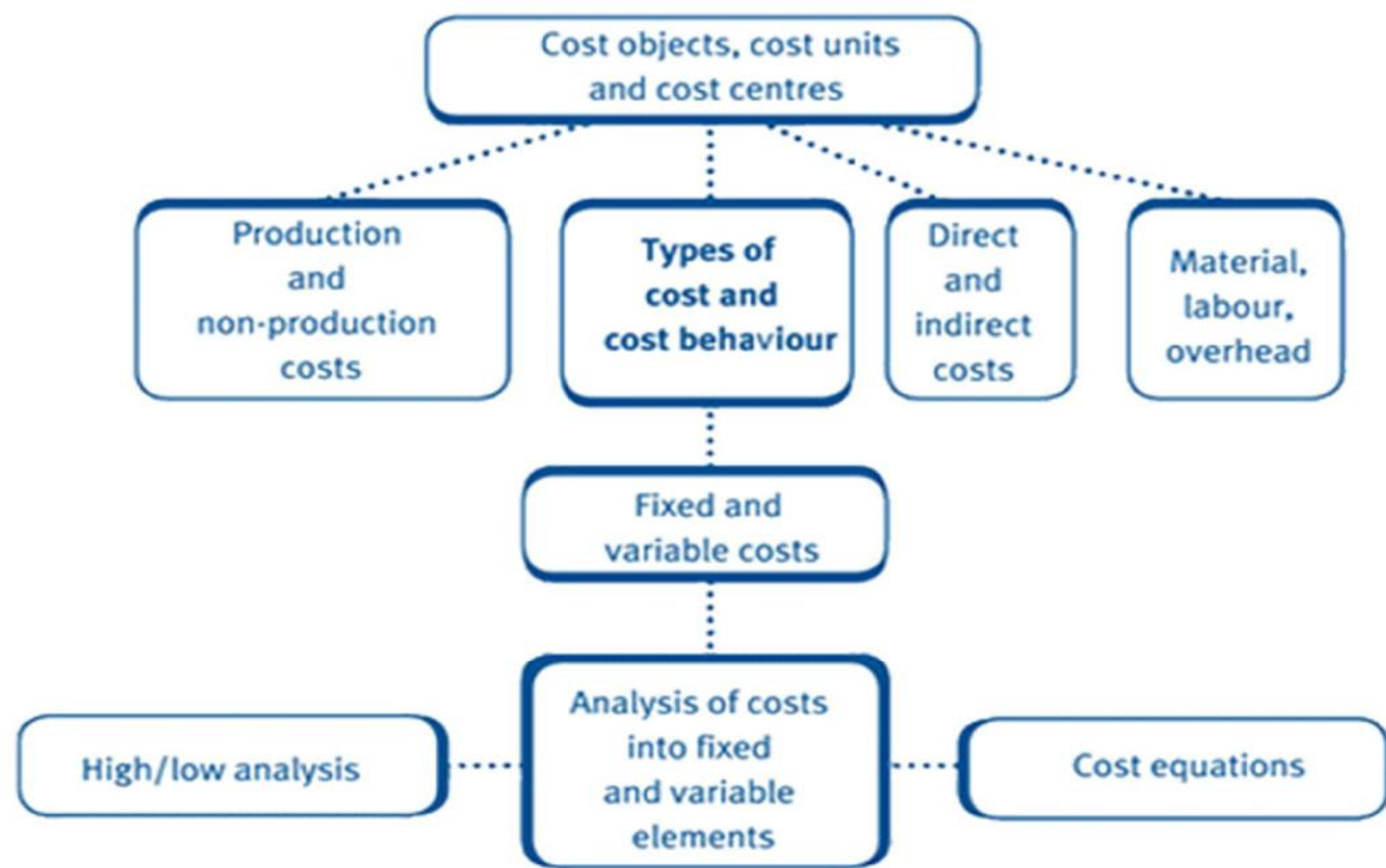


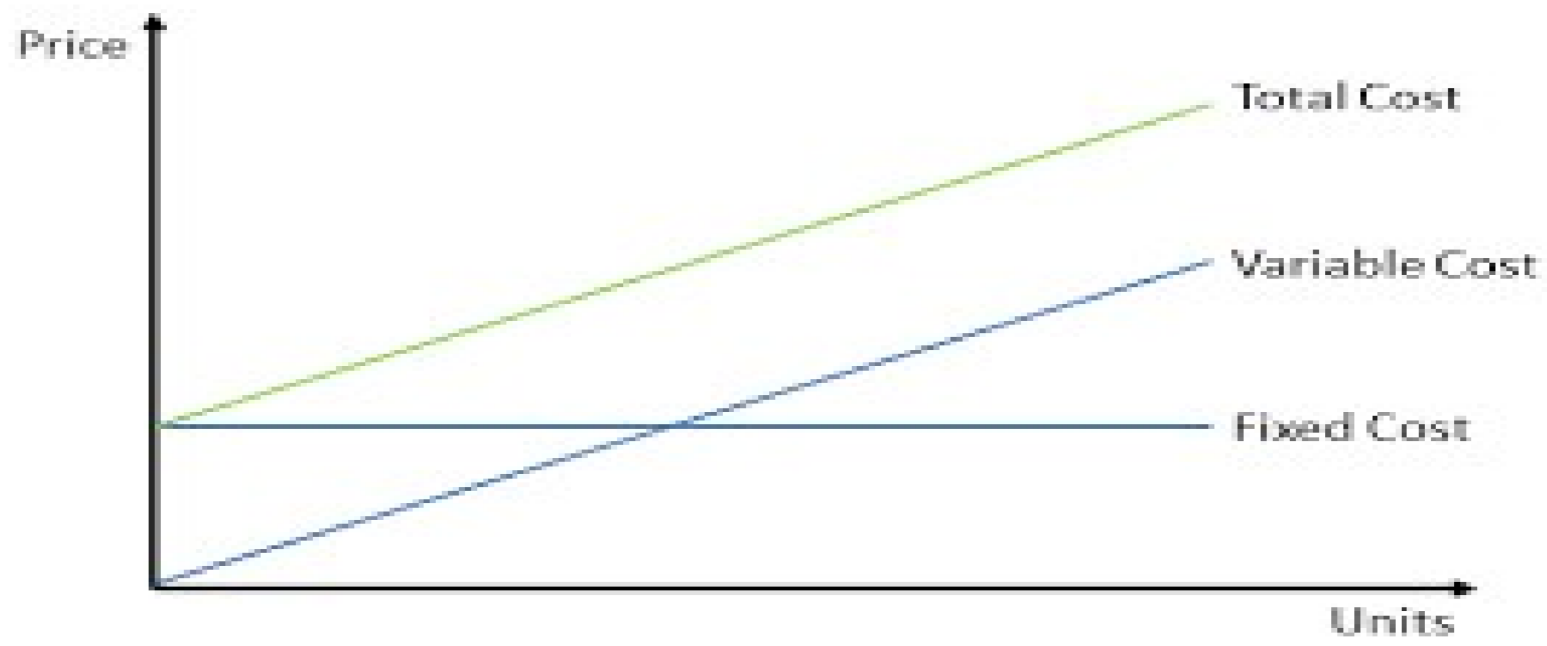
# **Material Costing**

**CMA-1  
SEMESTER-2**

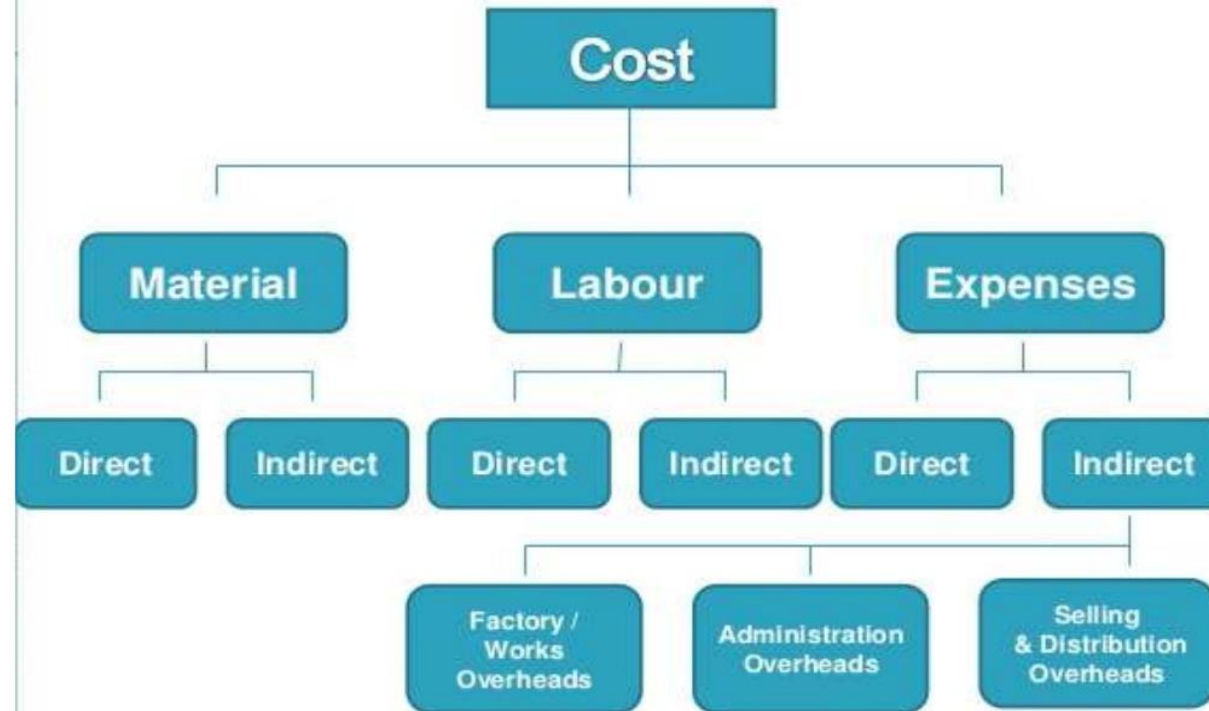
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**Cost Accounting** may be defined as “Accounting for costs classification and analysis of **expenditure** as will enable the **total cost** of any particular **unit of production** to be ascertained with reasonable degree of accuracy and at the same time to disclose exactly how such total cost is constituted”.

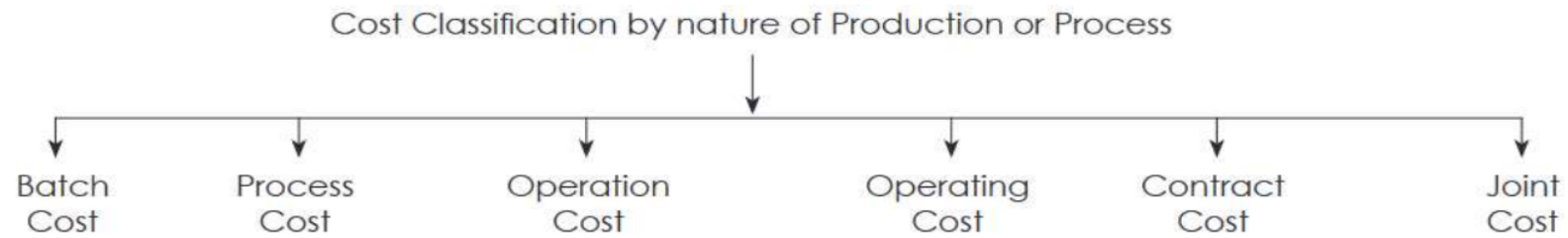
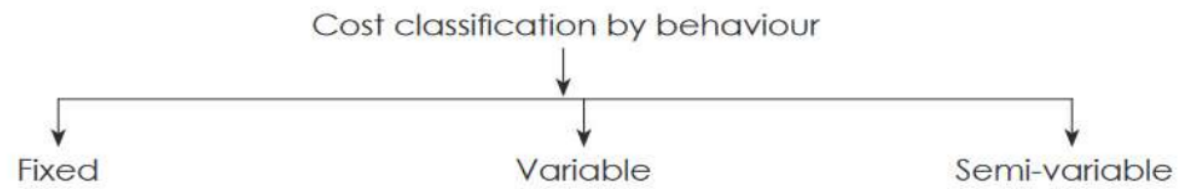
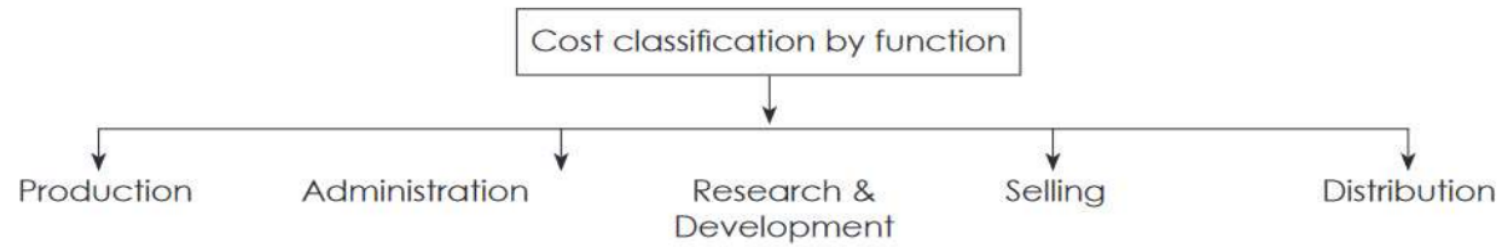




# Elements of Cost



Industry / Product	Cost Unit
Automobile	Number of vehicles
Cable	Metres / kilometres
Cement	Tonne
Chemicals / Fertilizers	Litre / Kilogram / tonne
Gas	Cubic Metre
Power - Electricity	Kilowatt Hour
Transport	Tonne-Kilometre, Passenger-Kilometre
Hospital	Patient Day
Hotel	Bed Night
Education	Student year
Telecom	Number of Calls
BPO Service	Accounts handled
Professional Service	Chargeable Hours



## Concept of Inventory

### Accounting Standard 2 (AS-2)

#### Tangible Property

1. Sale in the ordinary course of Business
2. In the process for production for sale
3. For consumption in the production of goods or services for sale, including maintenance supplies and consumables other than machinery spares

#### Forms of Inventories:

1. Production inventories: raw materials, parts, components used in the production process
2. In process inventories : semi finished goods, lying at different stage of production
3. Finished Goods inventories: products ready for sale
4. Non production inventories : office stores, machine parts, soap, lubricating oil, etc
5. Scrap inventories: scraps are also sold as form of inventories

## Types of materials

1. **Direct Materials**: materials which are identified with the finished products. Such costs are identified with the finished goods. Wood in furniture, raw cotton for making clothes
2. **Indirect Materials**: small value and do not form part of the finished goods. Nuts, pins, screws, consumable stores, cotton waste etc.

### Responsibilities of purchase departments

1. To know the exact specification of materials
2. To know the sources of such materials
3. To continuously search for new sources of supply

### Functions of Purchase Department

1. Choosing sources of supply.
2. Interviewing Suppliers
3. Obtaining quotations
4. Procuring materials
5. Maintenance of records
6. Approving invoices

## Purchase Procedure

1. Receiving request for purchase of materials from stores officers
2. Inviting tenders and quotations
3. Receipt of quotations from suppliers and selecting the suitable suppliers
4. Initiating purchase actions
5. Receiving of materials after proper inspection
6. Transaction with the suppliers

## Purchase Requisition

1. Store keeper regularly processes the production level and the store keeper observes that the material has reached the reorder level
2. Production planning and control department prepares the bill of materials
3. The plant engineer and work manager maintains the capital asset for their construction
4. Any other person in charge of the department maintains office stationary, safety measures, painting and cleaning
5. Purchase requisition is sent for purchase of material of right quality, quantity, in right time

A Proforma Purchase Requisition is appended below:

### Purchase Requisition

From..... Department

No.....

Date.....

To Purchase Department,

Please arrange to purchase the following materials which are required on..... for utilization against production order number..... /for stock.

Serial No.	Particulars of Materials	Code No.	Balance in Stores (Quantity)	Quantity Required	Remarks

Signature

(To be filled in by the Purchase Department)

Purchase order number.....

Supplier.....

### For Use by Purchase Department Only

Date	Purchase Order No.	Name of the Supplier	Delivery Date	Remarks

Signed: Purchase Manager/Officer

Fig. 3.1

# *Purchase Order*

*From XYZ Co. Ltd.*

*To (Supplier)*

*Serial No.....*

*Date.....*

*Ref. No.....*

*Purchase Requisition No.....*

*Your quotation No..... dated..... has been accepted. Please supply the following materials in accordance with the instructions mentioned herein:*

<i>Item No.</i>	<i>Code No.</i>	<i>Description</i>	<i>Quantity</i>	<i>Rate</i>	<i>Value</i>	<i>Delivery Date</i>	<i>Remarks</i>

*Excise duty.....*

*Sales tax.....*

*Discount allowed.....*

*Packing charges.....*

*Terms of payment.....*

*Delivery at.....*

*Purchase Manager  
for XYZ Co. Ltd.*

## Methods of Purchasing

1. **Centralized Purchase**: Purchase by a single person or through a particular department
2. **Decentralized Purchase**: Purchase by a number of persons or through a number of departments

**XYZ Co. Ltd.**  
**Goods Received Note**

From  
Supplier.....  
.....

No.....  
Date.....  
Delivery Note No.....

Item No.	Description	Code No.	Purchase Order No.	Quantity on Order	Quantity Received	Rate	Value	Remarks

Carrier	Bill No.	Stores Ledger	Accounts Reference	Inspected by	Quantity Rejected

Signature

Goods Received Note: prepared by accounts department with reference to purchase order.

## Functions of a store keeper

1. To receive materials from receiving department and checking them
2. To issue materials to production department against material requisition note
3. To maintain upto date record of receipt
4. To report on waste, scrap, and obsolete stock
5. To keep the store clean and tidy
6. To enter all receipts in the bin card

**XYZ Co. Ltd.**  
**Materials Requisition Note**

Job or process No..... No.....  
 Department/shop..... Date.....  
 To the Store-keeper

*Please issue the materials stated herein:*

Description	Code No.	Quantity	For Cost Office		Remarks
			Rate	Value	

Bin No..... Issued by..... Priced by..... Authorised by  
 Stores ledger Folio No..... Received by..... Ref.....

**Fig. 3.4**

(b) **Materials Transfer Note:** Surplus materials drawn against one job can be used in another job instead of transferring it to the stores. Material Transfer Note is used to record transfer of materials from one job to another job or from one department to another department. It is preferable to use pre-numbered forms. Valuation of such materials is done at the price at which those materials were originally issued.

**Material Transfer Note**

From  
 Job No..... No.....  
 Department/shop..... Date.....  
 To  
 Job No.....  
 Department/shop.....

Description	Code No.	Quantity	For Cost Office		Remarks
			Rate	Value	

**Fig. 3.5**

(c) **Materials Return Note:** Sometimes, materials issued to a job may be in excess of the requirement. Those materials should be returned to the stores. Materials Return Note is an authorisation to return the materials issued in excess of the requirement. This should be pre-numbered.

<b>Materials Return Note</b>					
<b>From</b> Department..... Job No. .... Order No.....					No..... Date.....
Quantity	Description	Code No.	For Cost Office		Remarks
			Rate	Value	
Approved by		Returned by	Received by	Bin No..... Stores Ledger No.....	Cost Office reference No..... Priced by.....

**Fig. 3.6**

(d) **Bin Card:** Bin Card is a quantitative record of receipts, issues and closing balances of items of stores. Each item of the materials is accompanied by a separate Bin Card. Bin Card is usually kept attached to the bin in which materials are kept.

Bin Card is posted as and when a transaction takes place. On receipt of materials, the quantity is entered in the Bin Card from the *Goods Received Note* in the receipt column. Materials issued to various departments (as per requisitions) are entered in the issue column. The balance quantity is calculated and recorded. This card also shows the maximum level, minimum level and re-order level of materials and thus helps the store-keeper to control materials.

[illegible]

**Fig. 3.7**

(e) **Stores Ledger:** The Stores Ledger is maintained in the Cost Department. It shows both *quantity-wise* and *value-wise* details of receipt, issue and balance of materials. Additional information regarding quantity on order and quantity reserved may be recorded. This ledger is usually of loose-leaf (or card type) and contains an account of each class of materials. This ledger is a subsidiary ledger to the main cost ledger.

Materials Cost 99

Stores Ledger Account											
Materials.....						Maximum stock.....					
Code No.....						Minimum stock.....					
Location.....						Re-order stock.....					
Bin No.....											
Date	Receipts				Issues				Balance		
	G.R. No.	Quantity	Rate	Value	S. R. No.	Quantity	Rate	Value	Quantity	Rate	Value

**Fig. 3.8**

(f) **Bill of Materials:** A Bill of Materials is a comprehensive list of all the materials required for a particular job, process or service. It shows the exact specification of materials and quantity required against each item. It gives the details of materials necessary for various purposes. Substitute materials (that may be used when the original materials are not available) are also indicated in the bill of materials. As soon as an order is received, the bill of materials is prepared by the production-planning department with reference to the standardized specifications.

Bill of Materials							
Parts No. (or Code)	Ref. No.	Description	Quantity	Dimensions	Remarks	Cost Office use	
						Rate	Amount