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Topic:- Preparation of cost sheet

What is Cost Sheet?

A cost sheet is a statement that records all the costs a business incurs from production to sales. Using this information, a company can fix the price of its products and services. The main advantage of a cost sheet is that you can compare it with previous cost sheets to measure performance. You can then decide whether the cost of an item can be increased or decreased according to your costs.

You can prepare a cost sheet using previous cost sheets or current estimated costs. A previous cost sheet shows you the actual costs incurred for producing, storing, and selling a product. Using estimated values, you can produce a cost sheet just before the production begins. However, there may be several changes in the estimate and the final figures.

A cost sheet has to contain the following Information:

- Cost per unit of a product
- Total cost
- The four main components of a cost sheet:
- Prime Cost
- Works Cost
- Cost of Production
- Total Cost or Cost of Sales

- Percentage incurred on every expense to the total cost
- If the cost sheet is prepared using historical cost sheets, record of discrepancies, if any
- If two cost sheets of any period are compared, record of discrepancies, if any
- Details about the management for cost control
- Summary of the total cost of the product

Components of a Cost Sheet

Let us see what the different costs mean on a cost sheet:

1. Prime Costs

Under this header, you have to record all the expenses involved in the production process. This is also known as basic or first cost.

For example, if you have a textile store, your prime costs will be the costs of purchasing fabric from weavers, employee salaries, packaging, implements needed to measure and cut cloth, etc.

The formula for calculating prime costs is:

Prime Costs= Direct Labour + Direct Raw Material+Direct Expenses

2. Works Cost

Works cost is the sum of prime costs and overhead costs including factory expenses. Overhead costs are those costs that are not directly related to the production of a product but are required nevertheless. For example, you need to pay electricity bills to keep your production going. Similarly, there are several other taxes and utility costs that fall under the overhead costs category.

3. Cost of Production

Under this header, you should include all the expenses involved in business operations, including rents and work costs. The formula for calculating the cost of production is:

Cost of Production= (Work Costs)+(Administration Overhead Costs)-(Opening and Closing Stock of Finished Goods)

4. Cost of Sales

Cost of sales or total cost contains the details of all the expenses involved in the production and other costs involved in selling and distribution. This value will help you understand how much you spend on a product according to the resources used for producing it. You can decide your selling price according to the cost of sales and know how much profit you will earn from it.

Different Types of Costs

Costs are of four types:

1. Fixed costs

These costs are fixed, that is, they do not change according to the number of products. The price of your land or equipment are some examples of fixed costs.

2. Variable costs

These costs vary according to the number of products. Raw material and labour are some examples of variable costs.

3. Operating costs

Your business incurs these costs to maintain production daily. Utility costs, office supplies, travelling costs, etc. fall under this category.

4. Direct costs

These costs are directly connected to production. For example, if a car company produces a car in four days, the raw materials and labour involved in the production form the direct cost of the car.

Cost Sheet Format

You must keep this format of cost sheet in mind for the correct preparation of cost sheet:

	Particulars	Amount	Total Amount
	Direct Material Purchased		
ADD	OP Stock of Raw Material		
LESS	CL Stock of Raw Material		
	Material Consumed		
ADD	Direct Wages		
ADD	Direct Expenses		
	Prime Cost		
ADD	**Works or Factory Overheads**		
	Factory Overheads		
ADD	OP Stock of WIP		
LESS	CL Stock of WIP		
	Work Cost		
ADD	Administrative or Office Overheads		
	Cost of Production		
ADD	Selling and Distribution Overheads		
ADD	OP Stock of FG		
LESS	CL Stock of FG		
	Cost of Sales		
ADD	Profit Margin		
	Selling Price		

How to Prepare a Cost Sheet?

Here is a step-by-step guide to preparing a cost sheet:

Step 1:

Prime Cost = Direct Material Consumed + Direct Wages + Direct Expenses

Direct Material Consumed = Direct Material Purchased + OP Stock of Raw Material – CL Stock of Raw Material

Step 2:

Works Cost = Prime Cost + Factory Overheads + OP Stock Work in Progress – CL Stock Work in Progress

Step 3:

Cost of Production = Works Cost + Office and Administration Overhead + OP Stock of Finished Goods – CL Stock Finished Goods

Step 4:

Total Cost = Cost of Production + Selling and Distribution Overheads

Profit: Sales – Total Cost

Cost Sheet Example

Suppose you are preparing a cost sheet for an automobile company for the year 2020-21. You have to consider the following information to prepare a cost sheet:

- Direct material consumed – INR 30,00,000
- Opening stock of raw materials – INR 18,00,000
- Closing stock of raw materials – INR 2,00,000
- Direct wages – INR 20,00,000
- Direct expenses – INR 10,00,000
- Factory overhead – 100% of direct wages
- Office and administration overhead – 20% of works
- Selling and distribution overhead – INR 10,00,000
- Cost of opening stock for finished goods – INR 2,50,000
- Cost of closing stock for finished goods – INR 3,50,000
- Profit on cost – 20%

Cost Sheet for 2020-21

Details	Calculations	Amount
Direct Material Consumed	30,00,000	
Opening Stock of Raw Material	18,00,000	
Add: Purchases	48,00,000	
Less: Closing Stock of Raw Materials	2,00,000	46,00,000
Direct Wages		20,00,000
Direct Expenses		10,00,000
Prime Cost		**76,00,000**
Factory Overheads (100% of direct wages)	100*(20,00,000/100)	20,00,000
Works Cost		**96,00,000**
Office and administration overheads (20% of works cost)	20*(96,00,000/100)	19,20,000
Total Cost of Production		**1,15,20,000**
Add: Opening Stock of Finished Goods		2,50,000
Cost of Goods Available for Sale		**1,17,70,000**
Less: Closing Stock of Finished Goods		3,50,000
Cost of Goods Sold		**1,14,20,000**
Selling and Distribution Overhead		10,00,000
Cost of Sales		**1,24,20,000**
Profit on Cost (20%)	12,420,000*20/100	24,84,000
Sales		**1,49,04,000**