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B.COM HONOURS	SEMESTER 4	CALICUT UNIVERSITY	COURSE CODE: COM4CJ204

APPLIED COSTING AND CONTROL

EXAM REVISION NOTES

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MODULE I

OVERVIEW OF COST ACCOUNTING

Conceptual Framework and Evolution of Cost Accounting: In a contemporary competitive economy, the survival, growth, and profitability of an industrial or service enterprise depend on its ability to manufacture goods or render services at the lowest possible cost consistent with acceptable quality standards.

- **Cost Accounting:** The limitations of financial accounting—particularly its inability to provide unit cost information, highlight operational inefficiencies, or assist management in setting competitive prices and exercising cost control—led to the genesis and evolution of during the Industrial Revolution.

Cost Accounting

Limitations of Cost Accounting: Despite its immense strategic utility, cost accounting suffers from inherent limitations that management must recognize:

- **Lack of Uniformity in Costing Conventions:** Different organizations apply varying conventions for depreciation (straight-line vs.
- **Heavy Reliance on Estimates and Allocations:** Apportioning common administration and factory overheads involves subjective estimates and arbitrary allocation bases, injecting a margin of error into unit cost figures.
- **High Implementation Cost:** Installing a comprehensive cost accounting system requires extensive documentation (material requisitions, job cards, time sheets, stores ledgers) and specialized staff, making it expensive for micro, small, and medium enterprises.
- **Inability to Capture Non-Monetary Factors:** Cost accounting records only quantifiable financial expenditures, ignoring qualitative variables such as employee morale, brand equity, customer loyalty, and geopolitical disruption.

Cost Units, Composite Cost Units, and Responsibility Centers

Responsibility Centers: A Responsibility Center is an organizational unit or activity headed by a designated manager who is held accountable for its financial and operational performance:

- **Cost Centre:** A location, person, or item of equipment for which costs may be ascertained and used for cost control.
- **Revenue Centre:** , sales territory, regional marketing branch).
- **Profit Centre:** , an independent product division).
- **Investment Centre:** The highest echelon of responsibility center, where the manager has authority over revenues, costs, and capital investment in operational assets.

Comprehensive Numerical Illustrations

Empirical Casework: Forensic Analysis, Audit Trail Verification, and Internal Controls: Empirical accounting investigations across modern industrial enterprises illustrate that financial distortion, fraud, and misstatement rarely occur as isolated incidents; rather, they stem from structural vulnerabilities within accounting workflows, segregation-of-duties lapses, or inadequate internal audit scrutiny.

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Advanced Analytical Dimensions and Applied Commerce Casework (Analytical Division 4): The concepts, statutory provisions, operational accounting rules, and quantitative models detailed in this module carry critical implications for enterprise governance, audited disclosure standards, and executive fiscal decision-making.

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MODULE II

SPECIFIC ORDER COSTING

Theoretical Foundations of Specific Order Costing: In cost accounting jurisprudence, manufacturing and service organizations are fundamentally bifurcated by their operational flow into two broad costing categories: Continuous (Process) Costing and Specific Order (Terminal) Costing.

Job Costing: Concepts, Procedures, and Accounting Records: Job Costing (also known as Specific Order Costing or Production Order Costing) is that method of cost ascertainment which applies to manufacturing operations where each job is treated as a separate cost unit.

The Concept of Economic Batch Quantity (EBQ): In batch manufacturing, management faces a critical operational optimization problem: What is the ideal quantity of units that should be produced in a single batch?

- (D) = Total Annual Demand / Output requirement (in units);
- (S) = Setting-up and tooling cost per batch (in ₹);

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- (C) = Carrying / Holding cost per unit per annum (in ₹);
- (Q) = Batch Quantity (the variable to be optimized).

Work-in-Progress (WIP) Presentation in the Balance Sheet

Illustration 2: Comprehensive Multi-Year Contract Account with WIP Valuation: Problem Statement: Shikhar Construction Ltd. undertook a commercial contract for the construction of an IT Park for a total Contract Price of ₹50,00,000 on April 1, 2025.

- **Required:** Prepare: (1) Contract Account for the year ended March 31, 2026; (2) Contractee's Personal Account; (3) Calculation of Notional Profit and the amount to be credited to Profit Loss Account; and (4) Balance Sheet extract showing Work-in-Progress.
- **Total: ₹37,30,000:** Total: ₹37,30,000
- **Total: ₹2,90,000:** Total: ₹2,90,000

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MODULE III

PROCESS COSTING AND SERVICE COSTING

Process Costing: Concepts, Characteristics, and Operational Architecture: Process Costing (also known as Continuous Costing or Average Costing) is that method of cost accounting applied in mass-production manufacturing environments where raw materials pass through a succession of continuous, distinct, and standardized operational stages (termed "processes") to emerge as finished products.

- **average cost per unit:** Unlike job or contract costing, individual units of output in process industries are completely homogeneous, standardized, and physically indistinguishable from one another.
- **Production Nature:** ; Intermittent, non-standard bespoke production against specific customer orders.
- **Product Homogeneity:** ; Heterogeneous, customized output tailored to customer specifications.
- **Cost Accumulation Center:** ; Accumulated separately for each individual job, order, or contract.

Joint Products and By-Products: Principles and Cost Apportionment: In many continuous process industries, the processing of a common raw material simultaneously yields two or more distinct products.

- **Joint Products:** , in petroleum refining: petrol, diesel, kerosene, aviation fuel; in dairy: butter, cheese, cream).
- **By-Products:** , molasses and bagasse in sugar manufacturing; coal tar and ammonia in coke manufacturing; hides and tallow in meatpacking).
- **Split-Off (Separation) Point:** The exact stage in the manufacturing flow where the joint products or by-products become physically distinct and identifiable from each other.

Net Realizable Value (NRV) Method

Equivalent Production in Work-in-Progress Inventories: In continuous processing, a department rarely empties out its entire production floor at the stroke of the midnight balance sheet date.

- **Equivalent Units of Production:** Because partially completed units have absorbed some raw materials, labor, and overheads, but not the full quota of a completed product, physical units cannot simply be added together to compute unit costs.
- **Statement 3: Statement of Evaluation:** Applies element-wise unit costs to value: (i) completed output transferred to next process; (ii) abnormal loss/gain; and (iii) closing work-in-progress.
- **Statement 4: Process Cost Account:** Compiles the debits and credits in the official ledger format using figures derived from the Statement of Evaluation.

Structural Architecture of a Transport Operating Cost Sheet

- Garage rent, rates and lighting;
- Vehicle insurance and road permits;
- Motor vehicle taxes (RTO fees);
- Salaries of garage supervisors managers;
- Interest on capital invested.

Illustration 1: Multi-Process Costing with Normal Loss, Abnormal Loss, and Abnormal Gain: Problem Statement: A product passes through two distinct processes, Process I and Process II, and then to Finished Stock.

- Input = 2,000 units @ cost of ₹20,000.
- **200 units:** Normal Loss = 10% of 2,000 = .
- Expected Sound Output = 2,000 - 200 = 1,800 units.
- **Abnormal Loss:** = 1,800 - 1,750 = 50 units.
- Cost Per Unit = Input Units−Normal Loss UnitsTotal Cost−Scrap Value =2,000−200Rs.

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Comparative Regulatory and Practical Implementation Standards: A rigorous examination of corporate commercial practice highlights the indispensable role of standardized accounting principles.

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MODULE IV

COST CONTROL

Standard Costing: Concepts, Objectives, and Comparative Foundations: In cost management, historical costing—which computes the cost of products only after production has occurred—suffers from a fatal operational limitation: it informs management what expenditures were incurred in the past, but fails to indicate whether those expenditures were reasonable, optimal, or excessive.

- **Standard Cost:** The Chartered Institute of Management Accountants (CIMA), London, defines standard cost as: "A predetermined calculation of how much costs should be under specified working conditions.
- **Standard Costing:** " Standard costing is not an alternative costing method (like job or process costing), but a universal control technique applicable across any costing system.

Ideal (Theoretical) Standard

The Variance Analysis Framework (Focus: Material Variances): Variance Analysis is the mathematical and managerial process of computing the differences between standard costs and actual costs, identifying the operational causes responsible for those deviations, and assigning responsibility to designated department heads.

- **Favourable Variance (F):** Occurs when actual cost is less than standard cost, indicating operational savings or cost efficiency (contributes positively to profit).
- **Adverse / Unfavourable Variance (A):** Occurs when actual cost is greater than standard cost, indicating operational inefficiency, waste, or price inflation (erodes operating profit).
- **1. Material Cost Variance (MCV):** The total difference between the standard material cost for actual output and the actual material cost incurred: [textMCV = (textStandard Quantity for Actual Output × textStandard Price) - (textActual Quantity × textActual Price) = (SQ × SP) - (AQ × AP)
- **2. Material Price Variance (MPV):** That portion of MCV attributable to the difference between the standard price specified and the actual purchase price paid per unit of material:MPV=Actual Quantity×(Standard Price−Actual Price)=AQ×(SP−AP) Responsibility: Purchasing Manager (causes: market fluctuations, poor bargaining, rush purchases, altered freight modes).

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