

COST ACCOUNTING

Costing and Cost Accounting

The costing terminology of C.I.M.A., London defines costing as the “the techniques and processes of ascertaining costs”. These techniques consist of principles and rules which govern the procedure of ascertaining cost of products or services. The techniques to be followed for the analysis of expenses and the processes by which such an analysis should be related to different products or services differ from industry to industry. These techniques are also dynamic and they change with time.

The main object of traditional cost accounts is the analysis of financial records, so as to subdivide expenditure and to allocate it carefully to selected cost centers, and hence to build up a total cost for the departments, processes or jobs or contracts of the undertaking. The extent to which the analysis of expenditure should be carried will depend upon the nature of business and degree of accuracy desired. The other important objective of costing are cost control and cost reduction.

Objectives of Cost Accounting

1. To analyse and classify all expenditure with reference to the cost of products and operations.
2. To arrive at the cost of production of every unit, job, operation, process, department or service and to develop cost standard.
3. To indicate to the management any inefficiencies and the extent of various forms of waste, whether of materials, time, expenses or in the use of machinery, equipment and tools. Analysis of the causes of unsatisfactory results may indicate remedial measures.
4. To provide data for periodical profit and loss accounts and balance sheets at such intervals, e.g. weekly, monthly or quarterly
5. To reveal sources of economies in production

6. To provide actual figures of costs for comparison with estimates and to serve as a guide for future estimates or quotations and to assist the management in their price fixing policy.

7. To show, where Standard Costs are prepared, what the cost of production ought to be and with which the actual costs which are eventually recorded may be compared.

8. To present comparative cost data for different periods and various volume of output and to provide guidance in the development of business. This is also helpful in budgetary control.

9. To record the relative production results of each unit of plant and machinery in use as a basis for examining its efficiency. A comparison with the performance of other types of machines may suggest the necessity for replacement.

10. To provide a perpetual inventory of stores and other materials so that interim Profit and Loss Account and Balance Sheet can be prepared without stock taking and checks on stores and adjustments are made at frequent intervals.

Types, Methods and Techniques of Costing

The general fundamental principles of ascertaining costs are the same in every system of cost accounting, but the methods of analysis and presenting the costs vary from industry to industry. Different methods are used because business enterprises vary in their nature and in the type of products or services they produce or render. Basically, there are two principal methods of costing, namely

- (i) Job Costing, and
- (ii) Process costing.

1. Job costing:

It refers to a system of costing in which costs are ascertained in terms of specific jobs or orders which are not comparable with each other. Industries where this method of costing is generally applied are Printing Process, Automobile Garages, Repair Shops, Shipbuilding, House

building, Engine and Machine construction, etc. Job Costing includes the following methods of costing:

(a) Contract Costing: Although contract costing does not differ in principle from job costing, it is convenient to treat contract cost accounts separately. The term is usually applied to the costing method adopted where large scale contracts at different sites are carried out, as in the case of building construction.

(b) Batch Costing: This method is also a type of job costing. A batch of similar products is regarded as one job and the cost of this complete batch is ascertained. It is then used to determine the unit cost of the articles produced. It should, however, be noted that the articles produced should not lose their identity in manufacturing operations.

(c) Terminal Costing: This method is also a type of job costing. This method emphasizes the essential nature of job costing, ie, the cost can be properly terminated at some point and related to a particular job.

(d) Operation Costing: This method is adopted when it is desired to ascertain the cost of carrying out an operation in a department, for example, welding. For large undertaking, it is frequently necessary to ascertain the cost of various operations.

2. Process Costing:

Where a product passes through distinct stages or processes, the output of one process being the input of the subsequent process, it is frequently desired to ascertain the cost of each stage or process of production. This is known as process costing. This method is used where it is difficult to trace the item of prime cost to a particular order because its identity is lost in volume of continuous production. Process costing is generally adopted in textile industries, chemical industries, oil refineries, soap manufacturing, paper manufacturing, tanneries, etc.

3. Unit or single or output or single output costing:

This method is used where a single article is produced or service is rendered by continuous manufacturing activity. The cost of the whole production cycle is ascertained as a process or series of processes and the cost per unit is arrived at by dividing the total cost by the

number of units produced. The unit of costing is chosen according to the nature of the product. Cost statements or cost sheets are prepared under which various items of expenses are classified and the total expenditure is divided by total quantity produced in order to arrive at unit cost of production. This method is suitable in industries like brick-making, collieries, flour mills, cement manufacturing, etc. this method is useful for the assembly department in a factory producing a mechanical article eg. Bicycle.

4. Operating Costing:

This method is applicable where services are rendered rather than goods produced. The procedure is same as in the case of single output costing. The total expenses of the operation are divided by the units and cost per unit of services is arrived at. This method is employed in Railways, Road Transport, Water supply undertakings, Telephone services, Electricity companies, Hospital services, Municipal services, etc.

5. Multiple or Complete Costing:

Some products are so complex that no single system of costing is applicable. It is used where there are a variety of components separately produced and subsequently assembled in a complex production. Total cost is ascertained by computing component costs which are collected by job or process costing and then aggregating the costs through use of the single or output costing system. This method is applicable to manufacturing concerns producing Motor Cars, Aeroplanes, Machine tools, Type-writers, Radios, Cycles, Sewing Machines, etc.

6. Uniform Costing:

It is not a distinct method of costing by itself. It is the name given to a common system of costing followed by a number of firms in the same industry. This helps in comparing performance of one firm with that of another.

7. Departmental Costing:

When costs are ascertained department by department, the method is called "Departmental Costing". Usually, for ascertaining the cost of various goods or services produced by the department, the total costs will have to be analysed, say, by the use of job costing or unit

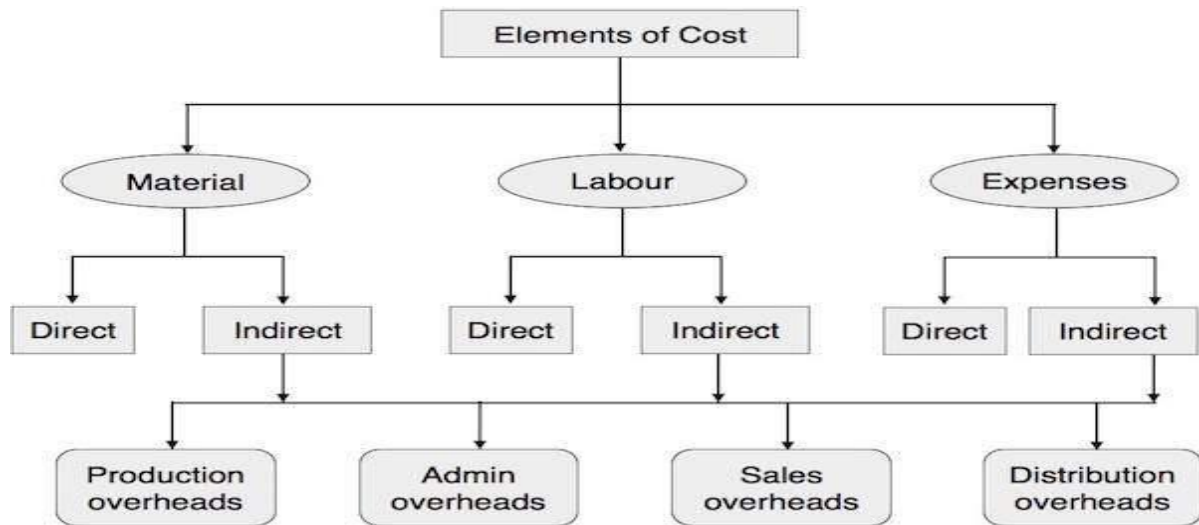
costing. In addition to the above methods of costing, mention can be made of the following techniques of costing which can be applied to any one of the above method of costing for special purposes of cost control and policy making:

- a) Standard or Predetermined Costs. b) Marginal Costs

Elements of cost

1. Prime cost = Direct Materials + Direct Labour+ Direct Expenses
2. Works or Factory Cost = Prime Cost + Works or Factory Overheads
3. Cost of Production = Works Cost + Administration Overheads
4. Total Cost or Cost of Sales = Cost of Production + Selling and Distribution Overheads .

The difference between the cost of sales and selling price represents profit or loss.



Basis of classification	Types of Cost Included
Nature	Material cost Labour cost Expenses
Association with cost object	Direct (conveniently and economically traceable) Indirect (nontraceable; must be allocated)
Cost behaviour	Variable (fluctuates in total) Fixed (remains constant in total) Mixed (is part variable, part fixed) Step (increases at certain activity levels)
Functions	Production cost Selling & Distribution cost Administration cost Research & Development cost Financing cost

Basis	Financial Accounting	Cost accounting
(i) Objective	It provides information about the financial performance and financial position of the business.	It provides information of ascertainment of cost to control cost and for decision making about the cost.
(ii) Nature	It classifies records, presents and interprets transactions in terms of money.	It classifies, records, presents, and interprets in a significant manner the material, labour and overheads cost.
(iii) Recording of data	It records Historical data.	It also records and presents the estimated/budgeted data. It makes use of both the historical costs and pre-determined costs..
(iv) Users of information	The users of financial accounting statements are shareholders, creditors, financial analysts and government and its agencies, etc.	The cost accounting information is used by internal management at different levels.
(v) Analysis of costs and profits	It shows the profit/ loss of the organisation.	It provides the details of cost and profit of each product, process, job, contracts, etc.
(vi) Time period	Financial Statements are prepared for a definite period, usually a year.	Its reports and statements are prepared as and when required.
(vii) Presentation of information	A set format is used for presenting financial information.	There are not any set formats for presenting cost information.

Essentials of Materials Control

1. Proper co-ordination and co-operation among different departments involved in purchasing, storing, issue and use of materials
2. Centralized purchasing
3. Proper scheduling, classification and codification of materials
4. Proper inspection at the time of receipt
5. Should use standard forms

Materials Issue Pricing

- Cost Price Methods
 - FIFO (First In First Out)
 - LIFO (Last In First Out)
 - HiFO (Highest In First Out)
 - Base Stock Price
- Average Price Methods
 - Simple Average
 - Weighted Average
 - Periodic Simple / Weighted Average
 - Moving Simple / Weighted Average
- Notional Price Methods
 - Standard Price
 - Inflated Price
 - Replacement or Market Price
- Weighted Average and FIFO Methods are used in Accounting

THE ESSENTIAL FEATURES

Category A

It involves Precise and Exact Estimation of Inventory Value.

The senior managers and professionals are involved in managing the inventory.

It requires very strict degree of control.

Category B

It involves an approximate estimation of inventory value.

Mid-level professionals and managers are assigned to manage this category of inventory.

It requires moderate degree of control.

Category C

It requires minimal or no estimation of inventory value.

This category is usually managed by the junior staff as it does not require much experience.

It requires minimal or limited degree of control.

ABC ANALYSIS

- ABC plan is based upon segregation of materials for selection control.
- It measures the money value, i.e., cost significance of each material item in relation to total cost and material value.
- The study of each item of stock in terms of its usage, lead time, technical or other problems and its relative money value in the total investment in inventories.
- Critical, i.e., high value items deserve very close attention, and low value items need to be devoted minimum expense and effort in the task of controlling inventories.

1. Separation Method:

$$\text{Labour Turnover} = \frac{\text{Number of employees left during a period}}{\text{Average number of employees during a period}} \times 100$$

Note: This method does not take into consideration the fact of surplus labour.

2. Replacement Method:

$$\text{Labour Turnover} = \frac{\text{Number of workers replaced during a period}}{\text{Average number of workers during a period}} \times 100$$

Note: This method takes into account the surplus labour.

3. Flux Method:

$$\text{Labour Turnover} = \frac{\text{Number of separations} + \text{Number of Additions}}{\text{Average number of employees during a period}} \times 100$$

Cost of Labor

$$\text{Cost of Labor Formula} = \text{Total Direct Labor Cost} + \text{Total Indirect Labor Cost}$$



Overhead

Overhead refers to the ongoing business expenses not directly attributed to creating a product or service. It is important for budgeting purposes but also for determining how much a company must charge for its products or services to make a profit. In short, overhead is any expense incurred to support the business while not being directly related to a specific product or service.

Types of Overhead

Overhead expenses can be fixed, meaning they are the same amount every time, or variable, meaning they increase or decrease depending on the business's activity level. Overhead expenses can also be semi-variable, meaning the company incurs some portion of the expense no matter what, and the other portion depends on the level of business activity.

Fixed Overhead

Fixed overhead is overhead costs that remain static for a long period of time and do not change as business activity ebbs and flows. Regardless of if business is growing or slowing, fixed overhead remains the same. Examples include rent, depreciation, insurance premiums, office personnel salaries, and the cost of licenses.

Variable Overhead

Variable overhead consists of the overhead costs that fluctuate with business activity. These are overhead costs that are not static. As business activity increases, so does variable overhead. As business activity slows, the variable overhead decreases. Examples include office equipment, shipping and mailing costs, marketing, legal expenses, and maintenance.

Semi-Variable Overhead

Semi-variable overhead is a combination of fixed and variable overhead where some costs are incurred regardless of business activity but may also increase if business activity grows. Examples of semi-variable overhead include commissions and utility costs. For utilities, a base amount is charged and the remainder of the charges are based on usage.

Other Types

Other categories of overhead may be appropriate depending on the business. For example, overhead expenses may apply to a variety of operational categories. General and administrative overhead traditionally includes costs related to the general management and administration of a company, such as the need for accountants, human resources, and receptionists.

Selling overhead relates to activities involved in marketing and selling the good or service. This can include printed materials and television commercials, as well as the commissions of sales personnel. Other categories such as research overhead, maintenance overhead, manufacturing overhead, or transportation overhead also apply.

Examples of Overhead

Some common examples of overhead costs companies must assume are rent, utilities, administrative costs, insurance, and employee perks.

Rent and Utilities

The costs associated with maintaining the office or manufacturing space companies must have in order to perform their business is an example of overhead. This includes rent as well as utilities such as water, gas, electricity, internet, and phone service. Additional costs such as a subscription to virtual meeting platforms like Zoom (ZM) also must be factored into a company's overhead.

Administrative Costs

Administrative costs are often one of the most expensive facets of a company's overhead. This can include the cost of stocking the office with the necessary supplies, the salaries of office associates, and external legal and audit fees. Administrative costs can range from the supply of toilet paper in the office restroom to hiring an external audit firm to ensure the company complies with industry-specific regulations.

Insurance

Depending on the company, businesses are required to hold many different types of insurance in order to operate properly. These can include basic property insurance to protect the company's physical assets from fire, flood, or theft as well as professional liability insurance, health insurance for its employees, and car insurance for any company-owned vehicles. While none of these costs are directly related to generating revenue for the company by providing a good or service, the business is often legally mandated to purchase these various types of insurance if it wishes to operate within most jurisdictions.

Employee Perks

Many larger companies offer a range of benefits to their employees such as keeping their offices stocked with coffee and snacks, providing gym discounts, hosting company retreats, and company cars. All of these expenses are considered overhead as they have no direct impact on the business's goods or services.

Special Considerations

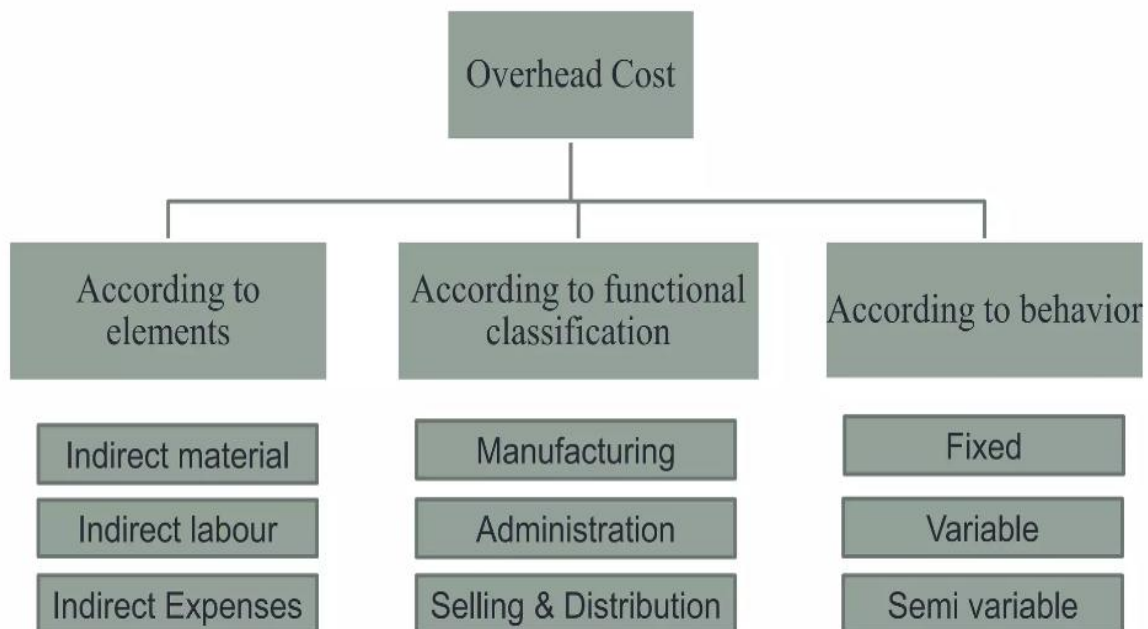
Overhead is typically a general expense, meaning it applies to the company's operations as a whole. It is commonly accumulated as a lump sum, at which point it may then be allocated to a specific project or department based on certain cost drivers. For example, using activity-based costing, a service-based business may allocate overhead expenses based on the activities completed within each department, such as printing or office supplies.

Overhead in Cost Accounting

Classifications



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Steps in overhead accounting

01. Collection of Overheads
02. Allocation of Overheads
03. Apportionment of Overheads
04. Reapportionment of overheads
05. Absorption of Overheads.

01. Collection of Overheads

- Overheads collection is the *process of recording each item of cost in the records* for the purpose of ascertainment of cost of each cost center or unit.
- The following are the source documents for collection of overheads.
 - i. Stores Requisition
 - ii. Wages Sheet
 - iii. Cash Book
 - iv. Purchase Orders and Invoices

02. Allocation of overheads

- Before the allocation and apportionment process starts, the first step is 'Departmentalization' of overhead expenses.
- **Departmentalization** means *creating departments* in the firm so that the overhead expenses can be conveniently allocated or apportioned to these department.
- Ex: Machining, personnel, assembling, maintenance, power, tool room, stores, accounts, costing

Allocation of overheads

- Allocation is the process by which cost items are charged directly to a cost unit or cost center.
- For example, electricity charges can be allocated to various departments if separate meters are installed & Salary of stores clerk can be allocated to stores department, cost of coal used in boiler can be directly allocated to boiler house division

03.Apportionment of Overheads

- Wherever possible, the overheads are to be allocated. However, if it is not possible to charge the overheads to a particular cost center or cost unit, they are to be apportioned to various departments on some suitable basis.
- Electricity- light point , machine hour
- Rent, repair of building- Floor space
- Insurance & depreciation of machinery -Value of machinery
- Power – horsepower
- Employee insurance ,expenses & canteen expenses – No of Employee
- A statement showing the apportionment of overheads is called as ‘Primary Distribution Summary’ of overheads. (see Q:01 , part “A”)

04.Reapportionment of Overheads

- The departments are broadly divided into Production Departments and Service Departments.
- ***Reapportionment of Overheads*** means, the overheads of the service departments are reapportioned to the production departments
- This process is called as preparation of ‘Secondary Distribution Summary’ of overheads

i. Repeated Distribution Method

- Under this method, services rendered by services departments to the production departments and other services departments are quantified in the form of percentages.
- The services departments costs are reapportioned to the production departments on the basis of these percentages. The process is repeated again and again till a negligible figure is reached **(See Q: 01 Part B & Q :04)**

ii. Simultaneous Equation Method

- This is an algebraic method in which simultaneous equations are formed and amount of overhead expenses of each service department are found out, by solving the equations.
- The total expenses thus obtained are then directly transferred to the production departments
- **(See Q: 03 & Q:04)**

05.Absorption of Overheads.

- Absorption means charging equitable share of overhead expenses to the products.
 - The absorption is to be made on some suitable basis.
 - The basis is the 'absorption rate' which is calculated by dividing the overhead expenses by the base selected. (See Q: 05)
- Overhead Absorption Rate = $\frac{\text{Overhead Expenses}}{\text{Units of the base selected.}}$

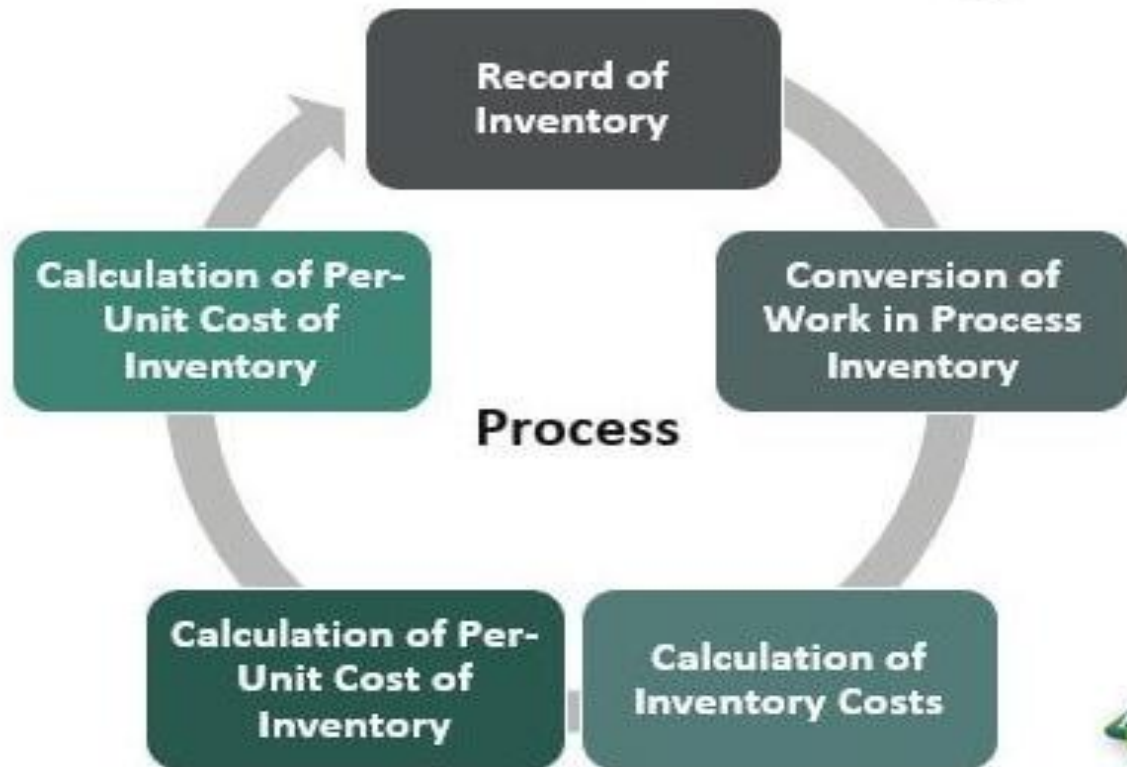
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Process Costing

$$\textit{Unit cost} = \frac{\textit{Production costs}}{\textit{Production}}$$

Basic process costing formula used by a manufacturer of a single, homogeneous product.

Process Costing



Features of process costing

- A separate process account is prepared for each process.
- Where all Inputs and Expenses are recorded in the DEBIT SIDE and Losses and output are CREDITED.
- The output of one process becomes the input of the next process and so on until the finished product is obtained.
- When the goods are sold, the amount will be transferred to the cost of goods sold account .
- When the goods are completed, they will be transferred to finished goods account.

Accounting For Losses and Gains In Process Costing

❖ Nature of losses

- Normal loss
- Abnormal loss

Input units	X
(-)Normal Loss	X
Expected Output	<u>X</u>
(-)Actual output	X
Abnormal Loss	<u>+ X</u>

❖ Nature of Gain

- Abnormal Gain

Input units	X
(-)Normal Loss	X
Expected Output	<u>X</u>
(-)Actual output	X
Abnormal Gain	<u>-X</u>

Proforma Process A/C

Dr.

Cr.

Particulars	Unit	Amount	Particulars	Unit	Amount
To Units introduced	X	X	By Normal Loss A/C (@ Scrap value)	X	X
To Process Material		X	By Abnormal Loss A/C (@ PCPU)	X	X
To Wages		X	By Unit Transferred to Next Process A/C	X	X
To Production overheads		X			
To Other Expenses		X			
To Abnormal Gain A/C (@ PCPU)	X	X			
	<u>X</u>	<u>X</u>		<u>X</u>	<u>X</u>

Normal Loss A/C

Dr.

Cr.

Particulars	Unit	Amount	Particulars	Unit	Amount
To Process account (@ Scrap value) ←	X	X	By Cash account (@ Scrap value)	X	X
	-	-	By Abnormal gain (@ Scrap value)	X	X
	<u>X</u>	<u>X</u>		<u>X</u>	<u>X</u>

Dr.

Abnormal Loss A/C

Cr.

Particulars	Unit	Amount	Particulars	Unit	Amount
To Process account (@ PCPU) ←	X	X	By Cash account (@ Scrap value)	X	X
	-	-	By Costing P&L account (Balancing Figure)	X	X
	<u>X</u>	<u>X</u>		<u>X</u>	<u>X</u>

Dr.

Abnormal Gain A/C

Cr.

Particulars	Unit	Amount	Particulars	Unit	Amount
To Normal loss A/C (@ Scrap value)	X	X	By Process A/C (@ PCPU)	X	X
To costing P&L A/C	X	X		-	-
	<u>X</u>	<u>X</u>		<u>X</u>	<u>X</u>

➤ Calculation of Process Cost Per Unit

Input	X
(-) Normal Loss	X
Expected Output	X

$$\text{PCPU} = \frac{\text{Total cost} - \text{Scrap value}}{\text{Expected output}}$$



Conclusion

Lastly the process costing system provides the mechanism to survive in a today's price competing world. It facilitates the effective pricing.

QUESTION BANK

UNIT I

1. **Cost accountancy** is the application of Costing and Cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability.
2. A **Cost unit** is a quantitative unit of a product or service in relation to which costs are ascertained.
3. A **Cost centre** is a location, a person, an item of equipment (or a group of these in relation to which cost are ascertained) and further related to cost units.
4. A centre which not only incurs cost but also generates revenue is known as **Profit Centre**.
5. The costs of material that can be physically identified with a specific cost unit is called as **Direct Material cost**.
6. The indirect cost which are incurred on manufacturing a cost unit or product is termed as **Production Overheads**.
7. **Sunk Cost** are costs which are created by decisions made in the past and cannot be altered by decisions to be made in the future.
8. The cost of converting raw materials from one stage of production cycle to the next is called as **Conversion Cost**.
9. The addition of all direct costs is known as **Prime Cost**
10. Costs which vary in direct proportion with changes in activity levels are called as **Variable cost**.
11. All costs that cannot be identified with and allocated to a cost unit but that has to be apportioned to a number of cost centres are described **as indirect cost**.
12. The indirect costs which are incurred in making the finished goods ready for dispatch and the delivery of the product to customers is known as **Distribution over heads**.
13. **Cost control** is the guidance and regulation by executive action of the costs of operating an undertaking.
14. Fixed cost per unit **decreases** with increase in output.
15. Out of pocket costs involve payment to **outsiders**.

16. **Period costs** are the costs which are charged in full to the profit and loss account for the period and they are not included for stock valuation purposes.
17. **Opportunity Costs** are those costs where the values of benefits are forgone or sacrificed in favour of alternative courses of action.
18. The additional cost that arises from the production of one additional unit of output or service is known as **Marginal costs**.
19. In element-wise classification of cost, consist of materials, labour and **Expenses**.
20. Cost Accounting serves the information need of **Management**.

UNIT –II

21. **Bin Card** is a quantitative records of material received, issued and balance available.
22. The quantity to be ordered at which both, the ordering costs and carrying costs will be minimum. is called as '**Economic Order Quantity**'.
23. **Maximum Level** is the highest level of material beyond which the inventory of material is not allowed to rise.
24. $\text{Maximum Usage per Period} \times \text{Maximum Re-order Period} = \text{Re-order level}$
25. **Stores Ledger** is a quantitative as well as value wise records of material received, issued and balance available.
26. Perpetual Inventory system means **continuous** stock taking.
27. **ABC analysis** is an inventory control technique in which inventory is classified into A, B and C Category .
28. The inventory system in which Inventory carrying costs and storage cost are eliminated totally is known as **Just in Time** technique.
29. VED analysis is very useful to **capital intensive** process industries.
30. In **First In First Out** method, the material in stock at the beginning of a period are issued firstly and then the issues are made according to the dates of purchases made.
31. FIFO method of inventory valuation is most suitable in times of **Falling Prices**.
32. The method in which the issues are charged at the average price of the material purchased is known as **Simple average Cost Method**.
33. In a period of heavy fluctuations in the prices of materials, the **Weighted Average Cost** method gives better results.

34. **Standard price** is the predetermined price and both the receipts and issues will be valued at this price.
35. **Material abstract** is also known as material issue analysis sheet.
36. The **replacement price** is the price of replacing the material at the time of the issue of materials or on the date of valuation of closing stock.
37. The **Danger level** is determined between the re-order level and Minimum Level.
38. '**Purchase Requisition**' is a commonly used format for requesting the purchase department to purchase the required material.
39. A **Material Requisition** note is prepared by the department that is in need of material and sent to the stores department.
40. The cost of the abnormal wastage is not charged to the production, but it is written off to the **Costing Profit and Loss Account**.

UNIT III

41. The **Direct Labor** cost can be charged directly to the job or product units and is included in the prime cost.
42. The payment of idle time arises only when workers are paid on **Time** basis
43. **Labor Turnover** can be defined as, a change in the labor force as compared to the total labor force.
44. The method under which the number of employees added during a particular period is taken into consideration for computing the labor turnover is known as **Addition Method**.
45. In **Flux method** of labor turnover is computed by taking into consideration the additions as well as separations.
46. Dissatisfaction with the working environment can be categorized as **avoidable** causes of labour turnover.
47. The costs incurred for preventing the labor turnover are known as **Preventive costs**.
48. The **Time Keeping** department is responsible for recording the attendance time of each worker accurately.
49. In **Time Rate** method of wage payment, wages per hour is fixed and payment is made accordingly on the basis of time worked irrespective of the output produced.
50. In piece rate method, if a worker produces higher output, he can earn **Higher wages**.

51. **Time Study** can be defined as the art of observing and recording the time required to do each detailed element of an industrial operation.
52. **Job Evaluation** is a systematic technique which helps in developing a systematic and rational wage structure as well as job structure.
53. Time shown by **Job Cards** becomes a basis of charging labour cost to various jobs.
54. In **Grading** method of job evaluation, each job is analyzed in terms of a predetermined grade and then assigned a grade or class.
55. **Merit rating** is the comparative evaluation and analysis of individual merits of Employees.
56. The study of time and motion is essential for designing an **incentive** system.
57. **Standard Time** is the time that should be taken for completing a particular job under standard or normal working conditions.
58. In Taylor's differential piece rate system, **two** piece rates are set for each job.
59. Wage sheet is prepared by the **Payroll** department.
60. Free education and Medical benefits which are given to boost the morale of the employees are termed as **Non Monetary** incentives.

UNIT IV

61. The total cost of indirect materials, indirect labor and indirect expenses are called as **Overhead**.
62. Absorption of overhead means charging each unit of a product with an **equitable** share of overhead expenses.
63. **Overheads collection** is the process of recording each item of cost in the records maintained for the purpose of ascertainment of cost of each cost center or unit.
64. Indirect expenses incurred for manufacturing are called as **Manufacturing** overheads.
65. The overheads which do not vary in total amount with increase or decrease in production volume are called as **Fixed Overhead**.
66. Codification of overheads helps in easy **identification** of different items of overheads.
67. **Departmentalization** means creating departments in the firm so that the overhead expenses can be conveniently allocated or apportioned to those departments.

68. **Allocation** is the direct process by which cost items are charged directly to a cost unit or cost center.
69. A statement showing the **Apportionment** of overheads is called as 'Primary Distribution Summary' of overheads.
70. When the administration overheads are treated as period costs , then it should be written off to the **Costing Profit and Loss** Account.
71. Cost incurred for creating demand and securing order for the firm's product is known as **Selling** overheads.
72. Administration overheads are mostly fixed in nature and they can also be termed as '**Policy cost**' as they arise out of a policy.
73. The expenses which are not incurred but included for taking managerial decisions are called **Notional** expenses.
74. Warehousing cost is an item of **Distribution** Overhead.
75. Basis of apportionment of crèche expenses is **Number of Female Employees**

UNIT V

76. **Process Costing** is used in those industries where the production is in continuous process.
77. In process costing, the abnormal loss is treated as **Period** cost and written off to profit and loss account.
78. The average unit cost for each process is calculated by dividing the total process cost by the **Number of Units in Process**.
79. If the actual production units are more than the anticipated units after deducting the normal loss, the difference between the two is known as **Abnormal gain**.
80. In process costing ,**Output** is uniform and all units are exactly identical during one or more processes.
81. The total cost of each process is divided by the **Total production** for the process to calculate the average cost per unit for the period.
82. In process costing, cost of materials ,wages and overhead expenses are collected for each **Process or operation** in a period.
83. The overhead element of total cost is generally **Very high** in process costing.

84. The loss which is unavoidable on account of inherent nature of production processes is known as **Normal Process Loss**.
85. Process Costing is one aspect of **Operation** Costing
86. When 1,000 units are 60% complete in a process, it is equivalent to **600** completed units
87. In process costing , the cost of **Abnormal process** loss is not included in the cost of process.
88. The output of one process forms the **input** of another process.
89. A residue of little or no value obtained during production is called as **scrap**.
90. The cost of one process is transferred to the next process at **cost** price.
