

SHERSHAH COLLEGE, SASARAM

COST ACCOUNTING

BBA PART II, PAPER X

(BY-MR. KUMAR MANGAL SINGH, SHERSHAH COLLEGE SASARAM)

SINGLE AND OUTPUT COSTING

Cost ascertainment is the basic function of cost accounting. Cost is ascertained on total as well as per unit basis. A number of methods have emerged for the ascertainment of the cost of production. Important methods used for the calculation of the cost of production are as follows :

- i) Single costing;
- ii) Job costing;
- iii) Contract costing; and
- iv) Process costing.

SINGLE COSTING

Single costing method of the ascertainment of the cost of production is suitable for those industries in which manufacturing is continuous and units of output are identical. According to J.R. Batliboi, "Single or output cost system is used in businesses where a standard product is turned out and it is desired to find out the cost of a basic unit of production."

Thus single costing is adopted for cost ascertainment in those manufacturing organisations which are engaged in producing only one type of product or two or more products of the same kind but of varying grades or qualities. In all those industries where single

costing is used, there is a standard or natural unit of cost e.g. a tonne of coal in collieries, one thousand bricks in brick works, a quintal of sugar in sugar industry, a tonne of cement in cement industry etc. In single costing, cost of production is usually ascertained by preparing a cost sheet or a cost statement.

Characteristic Features of Industries Which Use Single Costing

The following are the characteristic features of the industries where the single costing method is used :

1. Production is on a large scale and is continuous.
2. The units of production are identical and homogeneous.
- 3 The cost units are physical and natural and capable of being expressed in a convenient unit of measurement.

Objectives of Single Costing

Single costing is a very simple method of costing. Its principal objectives are as follows:

- i) To determine the total cost of production during a particular period.
- ii) To ascertain the per unit cost of production by dividing the total cost of production by the number of units produced.
- iii) To estimate per unit cost of production for the future and facilitate production planning.
- iv) To help in the preparation of tenders and fixation of selling prices.
- v) To facilitate comparison of the cost of production of two accounting period.

Cost sheet

The cost sheet is a periodical statement of cost designed to show in detail the various elements of cost of goods produced like prime cost, factory cost, cost of production and total cost.

Comparative figures of the previous period may also be shown in

the cost sheet so that assessment can be made about the progress of the business. Cost sheet serves the following purposes :

- (a) It reveals the total cost and unit cost of production.
- (b) It provides the breakup of total cost i.e. different element of cost.
- (c) It shows a comparative study of the cost of current period with that of the corresponding previous period.
- (d) It acts as a guide to management in fixation of selling prices and quotation of tenders.

Stocks of work-in-progress

Stock of work-in-progress or semi-finished goods consist of those goods which require further processing before they can be sold. In the cost sheet, opening stocks of work- in-progress is added in prime cost along with factory overhead and closing stock of work-in-progress is subtracted there from. In this way, the costs of the opening and closing stocks of work-in-progress are adjusted to compute the factory cost.

Treatment of Scrap

Scrap is the incidental residual from certain types of manufacturing process usually of small amount and low value, recoverable without further processing.

Treatment of By-Products

Some by-products arise from manufacturing process. The realizable value of by-products is deducted from the factory overheads or factory costs.

Treatment of Defective Products

Defective product can be rectified at an extra expense. If it is caused by normal reasons, it can be included in factory costs. If it

is caused by abnormal reasons, it can be transferred to costing profit and loss account or to a separate Defective Account.