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2. Value of Work Uncertified (WUC)

The work completed/done after the issue of certificate by an expert of the contractee till the end of the financial year is termed as work uncertified. The value of WUC is computed on the basis of cost of work done.

$$= \text{Cost of Work Done Till the end of Reporting} - \text{Work Certified Period}$$

IV.

NOTIONAL PROFIT

• Rules for Amount of Profit/Loss to be taken to P&L Account

- In case of a Loss, the entire amount of loss should be charged to P&L A/c.
- In case of Profit

| % of Work Certified to Contract Price | Amount of Notional Profits to be taken to P&L A/c |
|---------------------------------------|---|
| < 25% | NIL |
| ≥ 25% < 50% | $\frac{1}{3} \times N.P \times \frac{C.R.}{W.C}$ |
| ≥ 50% < 90% | $\frac{2}{3} \times N.P \times \frac{C.R.}{W.C}$ |
| ≥ 90% < 100% | $E.P. \times \frac{C.R.}{C.P}$ |

Where,

N.P. = Notional Profits

C.R. = Cash Received

W.C. = Work Certified

C.P. = Contract Price

E.P. = Estimated Profits

TEACHING

Ques.) Explain the accounting treatment of Waste?

Ans.)

TREATMENT OF WASTE SCRAP

MEANING



- Waste is the residue such as smoke, dust, gases etc., which arises in course of manufacturing process and practically having no measurable sale or utility value.
- In certain types of processes and operations some material physically disappears on account of shrinkage, evaporation etc., with the result that the quantity of output is less than the input.

- Waste may be *Visible (remnants of basic raw material)* or it may be *Invisible (disappearance of basic raw material)*.

TREATMENT

- Normal Waste:** This is unavoidable and uncontrollable and treated as part of the product cost. The wastage cost is borne by the good units.
- Abnormal Waste:** The cost of abnormal waste is directly transferred to Costing Profit & Loss A/c.

Ques.) Explain the accounting treatment of Scrap?

Ans.)

MEANING

- Scrap represents the unusable loss which can be sold.
- It is a residue which is measurable and has a minor value.
- It may result from the processing of materials, obsolete stock or defective parts.
- Scrap should always be physically available unlike waste which may or may not be present in the form of residue.



METHODS OF SECONDARY DISTRIBUTION**1. DIRECT DISTRIBUTION METHOD**

Under this method, the total cost of Service Departments are directly apportioned to Production Departments ignoring the services rendered by one service department to another.

2. RECIPROCAL SERVICE METHOD

- These methods are used when different service departments offer services to each other, in addition to rendering services to Production Departments. Thus, various service departments are mutually dependent.

3. STEP DISTRIBUTION METHOD

- This method involves apportionment of total cost of service departments to other service departments on non-reciprocal basis.
- Under this method, the service department which provides more service to but gets less service from other service departments ranks first for distribution.

➤ We have two methods under Reciprocal Service Method:

a) REPEATED DISTRIBUTION METHOD

Under this method, the overheads ascertained as per Primary Distribution are arranged in one row & then the overheads of service department are distributed & re-distributed to all departments till a negligible amount is arrived at.

b) SIMULTANEOUS EQUATION METHOD

Under this method, two mathematical equations are made considering the reciprocal service of one service department to another and vice-versa. These equations are then equated in order to determine overhead distribution.