

BASICS OF COSTING

Costing means system for assigning costs to an element of a business. Costing is typically used to develop costs for any of the following:

- Customers
- Employees
- Products
- Processes
- Distribution Channels



Hence, the main objective in Costing is to find out the cost. Cost can be found out either for a product or a service, which in turn helps us to determine the selling price of the product or service.

Let's take an example of Ayurvedic Product

Particulars	13-14	14-15
Turnover	Rs 500	Rs 600
Profit	Rs 50	Rs 40

The management was worried as to how the profits are reducing even though the sales value is increasing.



The Company then appointed an expert to do an in-depth analysis and find out the cause for reduction in profit.



On analysis it was found that the company had not maintained cost records and the company sold 750 units of ayurvedic product.



The company sold a product XYZ at a selling Price of Rs **120** Variable Cost of Rs **140**, which had a negative contribution of Rs **20**, this resulted in reduction in profit because as the sales increased the negative contribution also increased.

Based on this analysis it was evident that the selling price should at least be a minimum of Rs **140** to recover the variable cost.

Thereafter the management revamped their whole process and increased their selling price to gain profits thereafter.

Thus, costing plays a vital role in deciding the price of a product / service and helps in maximizing the profits of any organisation.

2) PRODUCTION PROCESS :

Costing is directly linked to manufacturing process.

Example of Masala Dosa

The dosa batter is raw material , labour is the person who pours the batter on the tawa and the cooking gas is the overhead cost.

Here there are three types of costs :-

1. Raw Materials
2. Labour
3. Overheads



3) STRUCTURE OF A FACTORY



STORE	PRODUCTION	INSPECTION	DISPATCH
Raw material used	Raw material converted to finished goods	FG are checjed for the quality	Finished products are delivered
Store Manager	Production Manager	Inspection Manager	Dispatch Manager

POINT OF SALE

SALES DEPT

HR DEPT

PRODUCTION DEPT

FINANCE DEPT

MATERIAL DEPT

R & D DEPT

1. Stores Department
2. Production Department
3. Inspection Department
4. Dispatch Department

1. **Stores:-** This is a place where raw materials are stored & this is headed by store manager. His role is to ensure that the raw material is available at all points of time.



2. **Production department:-** Here raw materials are converted into finished goods. This division is headed by the production manager.



3. **Inspection:-** In this department the quality of the goods are inspected so that the low quality goods are eliminated and only good quality products are supplied to the customers.



4. **Dispatch:-** Here the products are dispatched to the place of sale / customers.



There are mainly 6 planning division in every organisation:

Sales division:- This division is headed by the sales manager whose objective is to maximize sales.

HR division:- They are responsible for recruitment and arranging skilled workers & employees in an organisation

Production division:- This department ensures the goods are produced in the right time and good quality products are produced.

Finance division:- They are responsible for preparation of financials including the cost sheet.

Inspection:- In this department the quality of the goods are inspected so that the low quality goods are eliminated and only good quality products are supplied to the customers

R&D division:- They are responsible in bringing in new & better quality products by conducting continuous research.

