

J.S (P.G) COLLEGE SIKANDRABAD

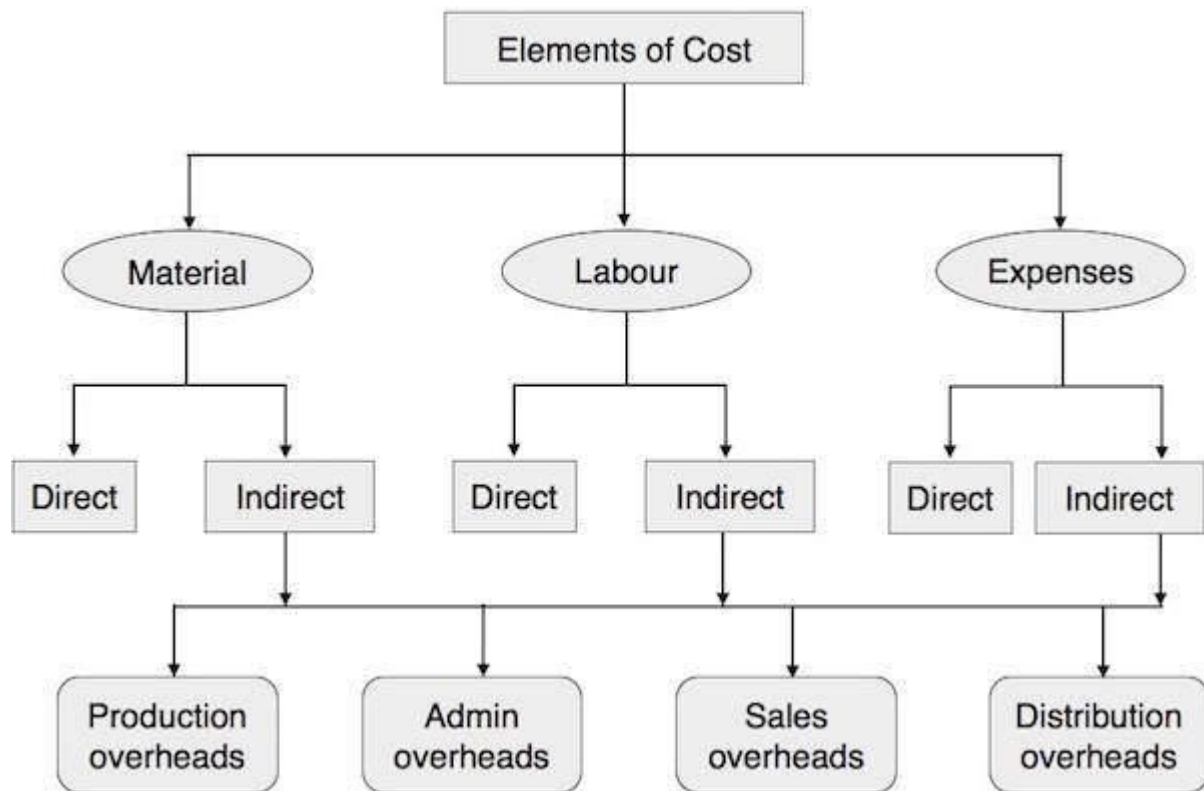
SUBJECT: COST ACCOUNTING

B.COM-2ND YEAR

TOPIC : Element of Cost

Elements of Cost

The elements of cost are those elements which constitute the cost of manufacture of a product. We can broadly divide these elements of cost into three categories. In a manufacturing organization, we convert raw materials into a finished product with the help of labor and other services. These services are Material, Labour and Expenses.



These elements of cost are divided into two categories such as Direct Material and Indirect Material, Direct Labour and Indirect Labour, Direct Expenses and Indirect Expenses. All direct material, direct labour and direct expenses are added to get prime cost. Likewise all indirect material, indirect labour and indirect expenses are added to get overhead. Again, overhead is divided into four categories. They are factory overhead, administration overhead, selling overhead and distribution overhead.

1.Direct Material:

It refers to material out of which a product is to be produced or manufactured. The cost of direct material is varying according to the level of output. For example: Milk is the direct material of butter.

2. Indirect Material:

It refers to material required to produce a product but not directly and does not form a part of a finished product. For example: Nails are used in furniture. The cost of indirect material is not varying in direct proportion of product.

3. Direct Labour:

It refers to the amount paid to the workers who are directly engaged in the production of goods. It varies directly with the output.

4. Indirect Labour:

It refers to the amount paid to the workers who are indirectly engaged in the production of goods. It does not vary directly with the output.

5. Direct Expenses:

It refers to the expenses that are specifically incurred by the company to produce a product. A product

cannot be produced without incurring such expenses. It varies directly with the level of output.

6. Indirect Expenses:

It refers to the expenses that are incurred by the organization to produce a product. But, these expenses cannot be easily found out accurately. For example: Power used for production.

7. Overhead:

It is the combination of all indirect materials, indirect labour and indirect expenses.

8. Factory Overhead:

It is otherwise called Production Overhead or Works Overhead. It refers to the expenses that are incurred in the production place or within factory premises. For example: Indirect material, rent, rates and taxes of factory, canteen expenses etc.