

School of Finance and Commerce

Course Code : BCOM2014

Course Name: Cost Accounting

MATERIAL ACCOUNTING

ELEMENTS OF COST :

- ▶ **Material cost: Direct materials**
- ▶ **Labor cost: Direct labor cost**
- ▶ **Overheads: Indirect material cost, Indirect labor cost and other overheads.**

Material cost

► Material is the first and the most important element of cost. In a manufacturing company, material cost is the major component of cost. Even a minor change in the material cost will spell disaster for a manufacturing concern. Therefore the control of material cost becomes very important.

Types of material

- ▶ Materials can be classified into four categories:
- ▶ **Raw material:** basic material supplied in crude form for production
- ▶ **Consumable stores** such as lubricants, oil, cotton waste, etc
- ▶ **Tools,** pattern, maintenance materials like hammer, screws, etc
- ▶ **Components:** items that are finished goods but are required to manufacture another product, eg, typer, batteries, etc

Meaning of material control

- ▶ A system for checking that a company has enough materials in stock for its production needs, but is not storing more than it needs because this would use capital unnecessarily a system for checking the quality of materials bought by a company
- ▶ “Material control is a systematic control over purchasing, storing and consumption of materials, so as to maintain a regular and timely supply of materials, at the same time, avoiding overstocking.”

Meaning of material control

▶“Material control refers to the management function concerned with acquisition, storage, handling and use of materials so as to minimize wastage and losses, derive maximum economy and establish responsibility for various operations through physical checks, record keeping, accounting and other devices.”

Need/Objectives of Material Control

- ▶ To ensure uninterrupted supply of materials to the production and service departments.
- ▶ To prevent overstocking and under stocking
- ▶ To ensure effective and economic use of the available storage space and labor.
- ▶ To minimize the cost of storage.
- ▶ To identify and locate storage easily as to issue the materials immediately

Essentials of material control

- ▶ Materials Planning
- ▶ Materials Purchase/Receiving
- ▶ Storage
- ▶ Materials issue
- ▶ Materials Accounting

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Materials Planning :

- ▶ It includes:
- ▶ Centralized/ decentralized Purchasing
- ▶ Classification and codification
- ▶ Standardization and simplification
- ▶ Types of stores: centralized/de-centralized
- ▶ Fixation of levels:
- ▶ Reordering level
- ▶ Minimum level
- ▶ Maximum level
- ▶ Danger level
- ▶ Economic order quantity

Materials Planning :

- ▶ Selective control through ABC Analysis
- ▶ VED analysis
- ▶ Perpetual Inventory System

Material Purchasing and receiving

- ▶ It Includes
- ▶ Ascertaining requirements of materials
- ▶ Exploring source of materials
- ▶ Quotations
- ▶ Selecting best quotations
- ▶ Receiving and inspecting the materials
- ▶ Checking and passing bills of payment

Materials Storing :

- ▶ It Includes:
- ▶ Location and Layout of Stores
- ▶ Maintenances of records, **Bin cards, store ledgers**
- ▶ **Perpetual Inventory System**
- ▶ Calculation of Inventory Turnover Ratio to find out the movement of different materials.

Materials Issuing:

- ▶ It Includes:
- ▶ Materials Requisitions
- ▶ Bills of Materials
- ▶ Materials returned to stores
- ▶ Transfer of materials
- ▶ Loss of materials
- ▶ Surplus of materials

Function of Purchase Department:

- ▶ What to purchase
- ▶ When to purchase
- ▶ Where to purchase
- ▶ How to purchase
- ▶ At what price to purchase

Procedure followed by purchase department;

- ▶ Receiving a purchase requisition
- ▶ Exploring the source of supply
- ▶ Choosing the best supplier
- ▶ Preparation and execution of Purchase Order
- ▶ Receiving and Inspecting Materials
- ▶ Checking and passing of bills for payment

Purchase Requisition

- ▶ Document generated by a user department or storeroom-personnel to notify the purchasing department of items it needs to order, their quantity, and the timeframe. It may also contain the authorization to proceed with the purchase. Also called purchase request or requisition.
- ▶ It is a form used as a formal request to purchase department to purchase materials it needs.

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Purchase Order

▶ A purchase order (PO) is a commercial document and first official offer issued by a buyer to a seller, indicating types, quantities, and agreed prices for products or services. It is used to control the purchasing of products and services from external suppliers.

▶ It is the document which gives the authority to the department that will receive the materials and to the accounting department to accept bills from the supplier.

Store Records-BIN CARD :

- ▶A document that records the status of a good held in a stock room. A typical retailing business with a large stock room will use a bin card to record a running balance of stock on hand, in addition to information about stock received and notes about problems associated with that stock item.
- ▶A Bin card makes a record of the receipt and issue of materials and is kept for each item of stores carried. Receipt and issue column of the bin card records movement of stores.
- ▶It is placed right next to the specific material.
- ▶It is maintained by the storekeeper and he is responsible for it.
- ▶For each stores, minimum, maximum and ordering quantity is written in the bin card which helps the storekeeper to control the stores.

Stores Ledger :

▶A Store ledger is a document showing the quantity and value of materials received, issued and in balance at the end. One stores ledger is allotted to each component of material. Entries are made in this ledger by the costing clerk with reference to goods received note, material requisition note, material returned note etc.

▶It is kept with the costing department and is identical to a bin card except that the amount/value is also shown here along with quantity of materials.

Bill Of Material

- ▶A Bill of material(BoM) gives a complete list of all the materials required with quantities for a particular job, order of process.
- ▶A bill of materials or product structure (sometimes bill of material, BOM or associated list) is a list of the raw materials, sub-assemblies, intermediate assemblies, sub-components, parts, and the quantities of each needed to manufacture an end product.
- ▶Prepared by production department, it serves the purpose for materials Requisition.

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