

What is a Cost Sheet?

A cost sheet is a document which provides the business, the details of costs which the business house or entity incur during and after the production process. Cost Sheet is prepared in such a way to provide a detailed breakdown of the various costs during the production process. It highlights various elements of cost, like prime cost, factory cost, cost of production, and total cost.

Cost Sheet is a periodic statement which is prepared at regular intervals, e.g., weekly, monthly, yearly, etc which helps in tracking and managing all expenses related to the production of a particular product effectively.

Importance of Cost Sheet

1. The cost sheet reveals the total costs and costs per unit: The cost sheet provides information on the costs incurred in the production of a particular product. The total cost and per unit costs of the product are given in this cost information.
2. Provides information: the cost sheet shall indicate at each production level the costs arising from the manufacture of a product. The cost of raw materials used, wages paid to workers, administrative costs and sales and distribution costs shall be included.
3. Determination of Selling Price: The product's selling price is fixed with the aid of a cost sheet. Management can determine the selling price of its product by thoroughly analyzing the costs associated with production, allowing it to make the greatest profit while simultaneously covering all of its costs.
4. Decision-Making: The cost sheet aids the company in making choices. The cost sheet's cost information is useful for a variety of decision-making processes, including those involving the acquisition of equipment and raw materials, setting selling prices, selecting the best inventory control strategies, and more.
5. Preparation of Tenders: The cost sheet helps in the preparation of tenders or quotations. An estimated cost sheet is used to quote prices of the products or services. It also provides estimate price changes and prepare quotations like wise.

Components of Cost Sheet

1. Prime Cost

Prime Cost is the total of direct material cost, direct labor cost, and direct expenses.

Prime Cost = Direct Material + Direct Labour + Direct Expenses

Direct Material Cost is the cost of raw materials that are directly used in the production process. For example, the cost of cloth used for manufacturing pants, the cost of wood used in furniture , etc.

Direct Material = Opening Stock of Raw materials + Purchases + Expenses on Purchases – Closing Stock of Raw Materials

Direct Labour Cost refers to remuneration paid to workers who were directly engaged in the production process. It is also referred to as productive wages. For example, wages paid to tailors, carpenters, etc.

Direct Expenses are the additional expenses which may incur during the production process. For example, royalty paid, hire of special plant for production, etc.

2. Factory Cost

Factory Cost is the sum of prime cost and factory overheads. Factory Cost is known as works cost, production cost, or manufacturing cost.

Factory Cost = Prime Cost + Factory Overheads

Overhead are the expenses which are indirectly related to the production process but are essential. It includes the cost of coal, lubricating oil, nuts, and bolts, stationery used in the factory, small tools, salary paid to the supervisor, and works manager and wages paid to the watchman, cleaner, factory rent, depreciation on the plant, factory lighting and power, repairs, etc.

3. Cost of Production

Cost of Production is the sum total of Factory Costs and Office and Administrative Overheads. It is also known as office cost or administration cost.

Cost of Production = Factory Cost + Office & Administrative Overheads

Office and Administrative Overheads are those indirect expenses which are incurred on general management and administration functions. It includes salary paid to office staff, director and remuneration paid to the office clerks of the company, stationery used in the administrative office, postage, rent of office building, office lighting, legal expenses, depreciation on office furniture and equipment, etc.

4. Cost of Sales or Total Cost

It is the aggregate of the cost of production and selling and distribution overheads.

Total Cost = Cost of Production + Selling & Distribution Overheads

Selling and Distribution Overhead are those indirect expenses incurred on marketing, selling, and distribution of products. It includes the cost of packaging material, expenses incurred on advertisement, traveling expenses, carriage outwards, rent of warehouse, insurance of goods in transit, bad debts, etc.

How to Prepare a Cost Sheet?

Following are the steps followed while preparing a cost sheet are:

Step 1: The first step is to find the prime cost. Prime cost includes adding all the direct costs, like direct materials, direct labor, and direct materials.

Step 2: After calculation of the prime cost, the next step is to find the factory cost. Factory Cost is the sum of prime cost and factory overheads. Additionally, we include the opening stock of work-in-progress and subtract the closing stock of work-in-progress.

Step 3: The third step is to calculate the cost of goods sold. Cost of goods sold is the sum of factory cost, office and administrative overheads, and opening stock of finished goods and we deduct the closing stock of finished goods.

Step 4: In this step, the total cost is calculated by adding selling and distribution overheads to the cost of goods sold to find the total cost.

Step 5: The last step is to find Total Sales. Sales is the sum of total cost and profit. In case of loss, the amount is subtracted from the total cost.

Cost Sheet for the Period __

Particulars	Total Cost (₹)	Cost per unit (₹)
Direct Materials	XXX	XXX
Direct Labour	XXX	XXX
Direct Expenses	XXX	XXX
Prime Cost	XXX	XXX
Add: Factory Overheads	XXX	XXX
Add: Opening Stock of Work-in-Progress	XXX	XXX
Less: Closing Stock of Work-in-Progress	XXX	XXX
Factory Cost	XXX	XXX
Add: Office & Administrative Overheads	XXX	XXX
Cost of Production	XXX	XXX
Add: Opening Stock of Finished Goods	XXX	XXX
Cost of Goods Available for Sale	XXX	XXX
Less: Closing Stock of Finished Goods	XXX	XXX
Cost of Goods Sold (COGS)	XXX	XXX
Add: Selling & Distribution Overheads	XXX	XXX
Total Cost	XXX	XXX
Add: Profit	XXX	XXX
Sales	XXX	XXX