In this lecture we shall study the Elements of Cost. The following chart shows the various elements of cost and how they are classified.

Elements of Cost

- Material
  - Direct
  - Indirect
- Labour
  - Direct
  - Indirect
- Expenses
  - Direct
  - Indirect

Indirect → Production overhead, Admin overhead, Selling overhead, Distribution overhead.

Detail analysis is here:→

Materials:→ Material is the most important element of costing. It is the main constitution of the goods produced. Material can be ~~divid~~ classified in two categories:→

(i) Direct material (ii) Indirect material.

(i) Direct material:→

The material which is the—

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→ main part of the goods produced is called as direct material. for example → wood for furniture, Sugarcane for Sugar, iron for steel, brick, cement & lime for building etc. are direct materials.

(ii) Indirect material :→ It is that material which does not constitute the main components of the goods produced, but it is used in the production. for example :- use of oil for lubricating machines, rough cloths for cleaning the machines, brush small tools, nail, bolt, thread, gum, strips etc.

② Labour

Labour is an important element of production. Labour is the physical or mental effort expended in production. The material is converted into finished product only with the help of labour. Labour can be classified in two categories :→

(i) Direct Labour :→ The workers who participate actively in the production work are called direct or productive labour. for example → carpenter producing furniture, labours producing sugar etc. are direct labour. The salary or wages payable to them is direct labour.

Expenses

only material and labour do not produce a thing.

- for production, producer has to make some expenditures so that material and labour jointly may produce a commodity or render a service. The production expenses are of two types :→

(i) Direct expenses :→ Those expenses which are directly incurred for a particular unit of production or service. Such expenses can not be allocated to any other unit, job or service. Thus excise duty, rent of machines, royalty for extracting raw material from mines, charges for drawing designs for a specific product only are the example of direct expenses.

(ii) Indirect Expenses :→

Those expenses which can not be associated with any specific unit or the job are called Indirect expenses. These expenses benefit to all the units produced or all the work done or all the jobs undertaken in the production unit. Indirect expenses can be categorized as follows :→

(a) Factory or works overhead :→ These are also called manufacturing overheads. These mainly incurred in the factory i.e production house for the production of goods. for example :- Rent of the building of factory, Insurance of factory, depreciation of machines, repairs, salary of factory foreman, Inspection staff, oil for lubricating machines, nail, brush & small tools etc.

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(b) Administrative or office overhead →

The Expenses which are incurred for management, administration finance and other arrangements are included under the category of office and Administrative overheads. for Example, Salaries of office staff, staff contribution, Salary of office manager and other authorities, depreciation, repairs, insurance, maintenance etc. of office building, Director's fees, office stationary postage, telephone exp., legal exp. & bank exp. Etc. are included under Administrative & office overheads.

(c) Selling overhead :→

Expenses which are incurred in connection with sales of goods produced are called selling expenses. for example — Salary of sales executive, Commision, travelling allowance, internet, telephones stationary expenses related to sales, exp. for entertaining customers; exp. on samples, rate lists etc. are included ~~in~~ under selling overhead.

(d) Distribution overhead :→ Expenses incurred in the process of dispatching the product from sale office to the customer are called distribution expenses. for example — maintenance, repair, depreciation, insurance and salary etc. of the delivery vans & loading unloading of goods sold, all exp. of godown such as salary of the care taker of godown, rent, insurance of goods in stock Exp. made on packaging etc. are included in distribution overhead.