

UNIT-4 MATERIAL COSTING

Material cost

Material is the first and the most important element of cost. Even a minor change in the material cost will spell disaster for a manufacturing concern. Therefore the control of material cost is 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, batteries, etc

Definition of Material control

“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.”

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
- To maintain up to date stores records
- To facilitate stock taking.
- To reduce the risk of spoilage and obsolescence
- To reduce the misappropriation of materials.

Essentials of material control

1. Materials Planning
2. Materials Purchase/Receiving
3. Storage
4. Materials issue
5. Materials Accounting

1. 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
- Selective control through ABC (Always Better Control) Analysis
- VED analysis (Vital, Essential & Desirable)
- Perpetual Inventory System

2. 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

3. 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.

4. Materials Issuing – It Includes:

- Materials Requisitions
- Bills of Materials
- Materials returned to stores
- Transfer of materials
- Loss of materials
- Surplus of materials
- Methods of pricing and issue

5. Material Accounting- It Includes:

- Receipt of materials
- Issue of materials
- Losses and 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.

What is 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

Bin Card

Material Code:

Material Description:

Location:

Unit of Measurement:

Maximum Level:

Minimum Level:

Reorder Level:

Date	Doc No.	Received from/Issued to	Receipt	Issue	Balance	Verification with SL Date & Verified by	