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

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. Format of Purchase Requisition



What is 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.

Format of Purchase Order



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.

Format of BIN Card

		Bin	Card				
Mater Locati	ial Code: ial Descrip on: f Measurer			M	aximum Le inimum Le order Lev	vel:	
Date	Doc No.	Received from/Issued to	Receipt	Issue	Balance	Verification with S Date & Verified b	