

### COMPONENTS OF TOTAL COST

The various components of total cost are discussed below :

1. **Prime Cost** : Prime cost is also known as first cost, basic cost, and foundation cost. Prime cost consists three important elements of costs namely direct material cost, direct labour cost and direct expenses :

**Prime Cost =**

- Opening Stock of R.M.
- + Purchase of R.M.
- + Carriage on Purchase of R.M.
- Closing Stock of R.M.
- Materials Consumed

Rs.

√√  
√√  
√√  
√√  
√√

+ Direct Wages		√√
+ Direct Expenses		√√
<b>Prime Cost</b>		<u>√√</u>

2. **Works Cost/Factory Cost** : It comprises of prime cost and factory overheads which includes indirect materials cost, indirect labour cost and indirect expenses. Works cost denotes the actual cost, sometimes, opening stock of W.I.P. is added and closing balance of works-in-progress and value of scrap is subtracted.

**Works Cost =**

Prime Cost		Rs. √√
+ Indirect Materials		√√
+ Indirect Labour		√√
+ Factory Overhead		√√
+ Opening balance of W.I.P.		√√
- Closing balance of W.I.P.		√√
- Sale of Scrap		√√
<b>Works Cost</b>		<u>√√</u>

3. **Cost of Production** : Cost of production is the aggregate of works cost and office and administration overheads. Cost of production can be ascertained as follows :

$$\text{Cost of Production} = \text{Works cost} + \text{Office and administration overheads}$$

4. **Cost of Goods Sold** : Cost of goods sold can be ascertained by adding opening stock of finished goods to cost of production and deducting closing balance of finished goods from cost of production i.e.

$$\text{Cost of Goods Sold} = \text{Cost of production} + \text{Opening stock of finished goods} - \text{Closing stock of finished goods}$$

5. **Cost of Sales** : When selling and distribution expenses are added to cost of goods sold or cost of production (when opening & closing balance of finished goods are not given) it is known as cost of sales. It can be expressed as follows :

$$\text{Cost of Sales} = \text{Cost of goods sold or cost of production} + \text{Selling and distribution expenses.}$$

6. **Selling Price** : Selling price is ascertained by adding profit to cost of sales, i.e.

Selling Price = Cost of Sales		√√
+ Profit		√√
<b>Selling Price</b>		<u>√√</u>

Classification of total cost can be shown with the help of following chart :

**CHART**

<b>Prime Cost</b>	=	Direct Materials +Direct Labour +Direct Expenses		
<b>Works Cost</b>	=	Prime Cost	+	Factory Overheads
<b>Cost of Production</b>	=	Works Cost	+	Office Overheads
<b>Total Cost</b>	=	Cost of Production	+	S & D Overheads
<b>Selling Price</b>	=	Total Cost	+	Profit