COST ACCOUNTING

Chapter 4

Accounting for Raw Material Cost

The Cost of Raw Materials

Raw materials are materials or substances used in the primary production or manufacturing of goods. Raw materials are commodities that are bought and sold on commodities exchanges worldwide. Businesses buy and sell raw materials in the factor market because raw materials are factors of production.

# The cost of Raw Material

The cost of raw material

Direct material cost

Indirect material Costs
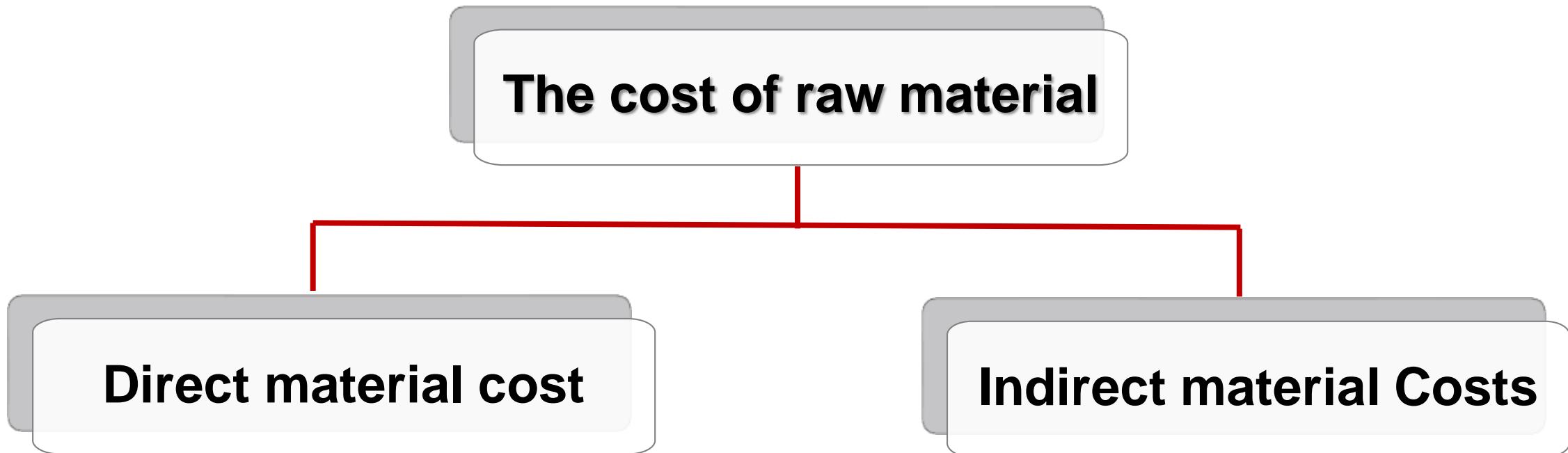
Type of raw materials

1. Direct Materials
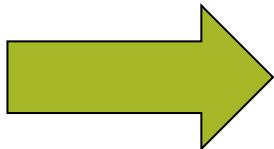
Type of raw materials

2. Indirect Materials
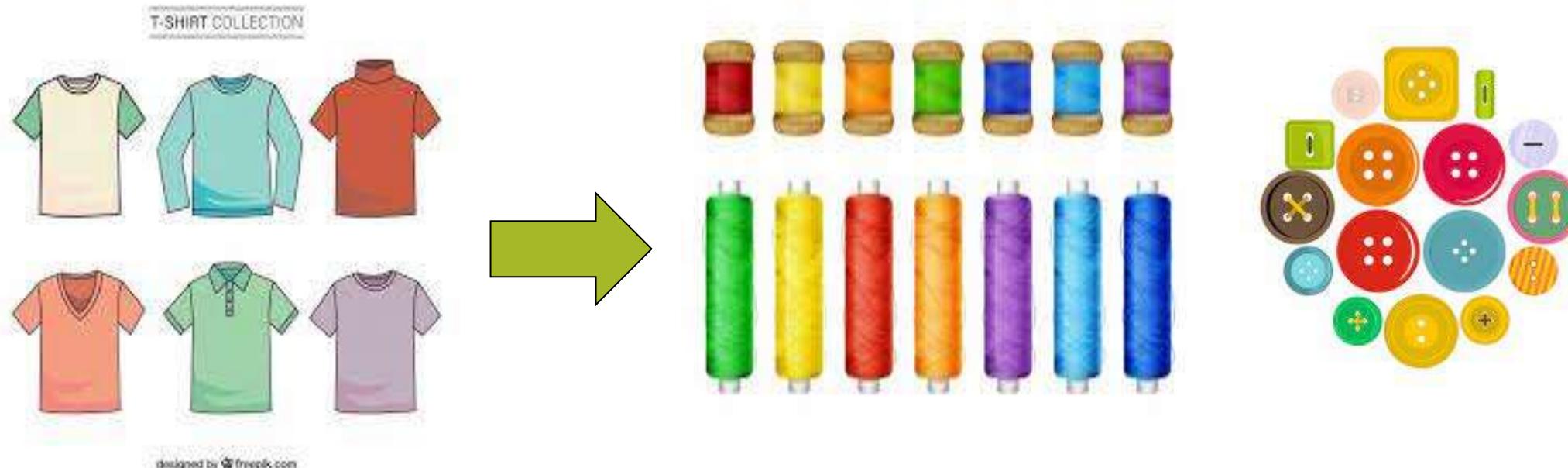
Materials control management

Material Control is a management function that is concerned with the storage, handling, and use of materials to minimize waste and improve inventory accuracy.

Materials control card

Material Control card

No. of material : ……….…….…Type : ……….……. Name of material : …………….…………….….

Storage location: …………….…………….…. Max No. : ……….…… Min No. : ……….…..……..

Counting unit : …………………………..

Date	Received			Used			Balanced		
	Units	Cost per Unit	Total	Units	Cost per Unit	Total	Units	Cost per Unit	Total

Principles of accounting for raw materials

Transaction	Periodic Inventory Method	Perpetual Inventory Method

1. Purchase	Dr. Purchase XX
	
	   Vat XX
	
	    Cr. Account Payable XX
		Dr. Material Control XX
		
		   Vat XX
		
		    Cr. Account Payable XX

2. Transportation in	Dr.Transportation - in XX
	
	   Vat XX
	
	    Cr. Account Payable XX
		Dr. Material Control XX
		
		   Vat XX
		
		    Cr. Account Payable XX

Principles of accounting for raw materials

Transaction	Periodic Inventory Method	Perpetual Inventory Method

3. Return to seller	**Dr. Account Payable** XX
	
	   Cr. Returns and discounts XX
	
	   Vat XX
		Dr. Account Payable XX
		
		   Cr. Material Control XX
		
		   Vat XX

4. Pay and get Discount	**Dr. Account Payable** XX
	
	   Cr. Cash XX
	
	   Discount XX
		Dr. Account Payable XX
		
		   Cr. Cash XX
		
		   Material Control XX

Principles of accounting for raw materials

Transaction	Periodic Inventory Method	Perpetual Inventory Method
5. Used of raw materials	No accounting record	Dr. Work in process control XX Overhead Control XX Cr. Material Control XX
6. Returned to warehouse	No accounting record	Dr. Material Control XX Cr. Work in process control XX Overhead Control XX

THE END