**Unit III - INTRODUCTION TO COST ESTIMATION**

**Session 1**

**Recap:**

Addressing the concept of production time calculation.

**Session objective:**

After studying this session the learner will be able to understand the concept of

Cost estimation Importance of cost estimation.

**Suggested activity:**

**PPT**

**DEFINITION**

Cost estimating may be defined as the process of forecasting the expenses that must be incurred to manufacture a product. These expenses take into consideration all expenditures involved in design and manufacturing with all the related service facilities such as pattern making tool making, as well as a portion of the general administrative and selling costs. Cost estimating also includes predetermination of the quantity and quality of material, labour required etc. Estimating requires highly technical -knowledge about manufacturing methods and Operation times etc.

**FUNCTIONS OF ESTIMATING**

*(i)* To calculate the cost of new material needed to manufacture a product.

*(ii)* To find the cost of parts to be purchased from outside vendors.

*(iii)* To find the cost of equipment, machinery, tools, jigs and fixtures etc. required to be purchased to make the product.

*(iv)* To calculate the direct and indirect labour cost associated with the manufacture of the product, based upon work study.

*(v)* To calculate various overhead charges associated with the product.

*(vi)* To decide about the profit to be charged, taking into consideration other manufacturers of same product in the market.

*(vii)* To calculate the selling price of the product.

**Conclusion:**

At the end of this session the learners should understand the concept of cost estimation and importance of cost estimation.

**Website URL:**

[www.engin.umd.umich.edu/CIS/course.des/cis375/ppt/lec4](http://www.engin.umd.umich.edu/CIS/course.des/cis375/ppt/lec4)

**Session 2**

**Recap:**

Addressing the concept of Cost estimation Importance of cost estimation.

**Session objective:**

After studying this session the learner will be able to understand the concept of

Costing and Difference between costing and cost estimation

**Suggested activity:**

**PPT**

**COST ACCOUNTING**

It is the determination of an actual cost of a component after adding different expenses incurred in various departments or it may be defined as a system which systematically records all the expenditures to determine the cost of manufactured products.

**IMPORTANCE OF COSTING**

Costing is an essential work for the efficient management of any enterprise and gives most useful Information for the preparation of financial accounts. It enables a business not only to find out what various jobs or processes have costed but also what they should have costed. It indicates where losses are wastage are occurring before the work is finished, so that immediate action may be taken to avoid such loss or waste. Also all expenditure are localized and thereby controlled in the light of information provided by the cost records.

**Conclusion:**

At the end of this session the learners should understand the concept of costing Difference between costing and cost estimation.

**Website URL:**

<http://www.swiftutors.com/estimating/difference-between-estimating-and-costing.php>

**Session 3**

**Recap:**

Addressing the concept of Costing and Difference between costing and cost estimation.

**Session objective:**

After studying this session the learner will be able to understand the concept of

Cost Estimation procedure and Importance of realistic cost estimation.

**Suggested activity:**

**PPT**

**COST ACCOUNTING**

It is the determination of an actual cost of a component after adding different expenses incurred in various departments or it may be defined as a system which systematically records all the expenditures to determine the cost of manufactured products.

**IMPORTANCE OF COSTING**

Costing is an essential work for the efficient management of any enterprise and gives most useful

Information for the preparation of financial accounts. It enables a business not only to find out what various jobs or processes have costed but also what they should have costed. It indicates where losses are wastage are occurring before the work is finished, so that immediate action may be taken to avoid such loss or waste. Also all expenditure are localized and thereby controlled in the light of information provided by the cost records.

**Conclusion:**

At the end of this session the learners should understand the concept of costing Difference between costing and cost estimation.

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