SUBJECT— COST ACCOUNTING

BY::

ABHISHEK ASHISH (ASSISTANT PROFESSOR)

K . L . S COLLEGE NAWADA

Cost Accounting

INTRODUCTION TO COST ACCOUNTING

Cost Accounting deals with the process through which we ascertain the cost incurred in manufacturing any product.
Once the cost is ascertained then profit is added to it so that the selling price could be determined by the organization

FUNDAMENTALS OF COST, ITS ELEMENTS AND CLASSIFICATION

COST, COSTING, COST ACCOUNTING AND COST ACCOUNTANCY
It is important to understand that the terms cost, costing, cost accounting and cost accountancy, which are normally used interchangeably, are not synonyms of each other. The difference can be understood as follows:

Costing —the classifying, recording andappropriate allocation of expenditure for the determination of the costs of products or services; the relation ofthese costs to sales values; and the ascertainment of profitability.‖ In general, it is understood as process for determining cost.

Cost Accounting is usually considered as the next step to costing. It involves meticulously accurateanalyzing,standardising, forecasting and comparingrelevant costing data so as to interpret and report various concern areas to management. Its scope includes preparation of budgets, determination of standard costs based on technical estimates, identifying variances and reasons thereof, etc.

Cost Accountancy envisages application of costing and cost accounting in a business setup. It includes determination of selling price and profitability in addition to forecasting of expenses and future probable incomes. It facilitates management with cost control initiatives, ascertainment of profitability and informed decision making.

Cost Reduction is aimed atachieving real and permanent reduction in the unit cost of goods produced or services rendered without compromising the quality or suitability

Cost Control refers tosearch for better and more economical ways of completing the current operations. It simply identifies and prevents waste within the existing environment. –

Cost Audit includesthe verification of cost accounts and a check on their adherence to the cost accounting principles, plans, procedures and objectives

.

COST ACCOUNTING Vs FINANCIAL ACCOUNTING Financial Accounting and Cost Accounting rest on the same basic principles and use the same records, but each deals with matters specially pertaining to itself. Financial Accounting discloses the profit/loss of business as a whole during a particular period while cost accounting makes available the unit costs and profits and/or losses of different product lines..

The importance of both, cost accounting and financial accounting cannot be undermined. The two are different from each other on the basis of meaning, objectives, mode of presentation, recording, analyzing profit, periodicity of reporting, degree of accuracy and method of valuation of stock.

DIFFERENCE BETWEEN COST AND FINANCIAL ACCOUNTING

Meaning Cost Accounting facilitates determination, tracking and controlling of various costs incurred in the business WHEREAS Financial Accounting records financial information of the business to reflect the profitability and the correct financial position of the company at a particular date.

Objective

COST ACCT HELPS IN Reducing and controlling costs. Where as financial accts Keeping complete record of the financial transactions, measuring profit position and financial position.

Information recorded

In cost accountingAll information relating to material, labour and overhead, which are used in the production process where as in fin acctingAll transactions which can be measured in monetary terms.

Time period of Reporting

In cost accounting No fixed time period. Reports prepared as and when required.Financial statements are prepared at the end of the accounting period, which is normally 1 year.

Valuation of Stock

At cost in cost accounting where as in financial accting
Cost or Net Realizable Value, whichever is less

IMPORTANCE OF COST ACCOUNTING

The management of the company requires detailed information with respect to cost of operations so as to equip the executives with relevant information required for planning, scheduling, controlling and decision making. This is facilitated by Cost Accounting. By cost management, waste elimination, utilization of idle capacity, cost accounting helps to increase the overall productivity of an organization..

- **Aids in price fixation**
- **Helps in preparing estimate**
- **Supports channelising production on right lines**
- **Assists in elimination of wastages**
- **Makes comparison possible across periods and across product lines**
- **Provides data for periodical profit and loss accounts**
- **Aids in determining and enhancing efficiency**
- **Helps in inventory control**
- **Facilitates cost reduction**
- **Assists in increasing productivity**
- **Makes available systems of incentives, bonus plans etc.**
- **Indirectly benefits through increase in consumer goods and directly through continuous employment and higher remuneration**
- **Provides a base for judgement about the profitability and further prospects of the company**
- **Facilitates control of costs, elimination of wastages and inefficiencies, thus, leading to the progress of the industry and in consequence of the nation as a whole.**

DRAWBACKS OR CRITICISM OF COST ACCOUNTING

COSt ACCOUNTING IS CRITICISED ON THE FOLLOWING GROUNDS

1 COST. it requires professional to compute the cost hence it increases the costing

2. Different Results from Financial Records: The results shown by the cost accounts generally differ from those shown by the financial accounts due to a number of reasons. Preparation of reconciliation statements frequently is necessary to verify their accuracy. This leads to increase in work load.

3. It is inapplicable: Lack of common formats and systems makes it impossible to apply cost accounting to all industries uniformly. Consequently, the systems need to be adapted by the respective industry on the basis of their nature or the nature of the product manufactured or service rendered.

4. It is unnecessary*:* Maintenance of cost records leads to duplication of work i.e. preparation of financial accounts as well as cost accounts. Moreover, costing system itself does not control costs or improve efficiency. If the management is alert andefficient, it can control costs without the aid of the costing system.

5. The system is complex: Cost accounting requires identification, categorization and allocation of the different types of expenses, which is generally considered as complicated.

6. Lack of Accuracy: Use of notional cost such as standard cost, estimated cost hampers the accuracy of the cost results.

7. Use of Secondary Data: Cost accounting depends largely on financial statements. The limitations and errors in the financial information directly affect the cost results.

These objections are flawed. Most of these drawbacks can be avoided if the cost accounting system is well designed after taking into account technical details and advice of technical personnel of the business, setting up an integrated system of accounts and administering the same in an atmosphere of teamwork and co-operation.

As has been discussed already, ‗cost' is referred to ―the amount of expenditure (actual or notional) incurred on, or attributable to, a given thing‖. However, an exact definition of the term ‗cost' is difficult as its interpretation depends upon the nature of the business, or industry, andthe context in which it is used.

For example, the cost of a product can be calculated excluding packaging expenses if the same are nominal in amount (eg. soap bar) while this treatment of exclusion

of cost will not be feasible in case the nature ofthe product requires heavy packaging cost (eg. perfumes).
Cost can also be considered as monetary valuation of effort, risk involved, opportunity forgone in production and delivery of a good or service and most importantly, resources like time, material and utilities. It is also imperative to remember that all expenses are costs, but not all costs,especially the ones incurred in acquisition of an income-generating asset, are expenses.
Before proceeding with the elements and components of cost, a basic understanding of cost object and cost driver is necessary.

COST OBJECT

Cost object may be defined as anything for which a separatemeasurement of cost is desired.

COST DRIVER

cost driver is ―an activity whichgenerates cost‖. A cost driver triggers a change in the cost of an activity and is generally used to assign overhead costs to the number of produced units.
An activity can have more than one cost driver attached to it. For example, a production activity may have a machine, machine operator(s), floor space occupied, power consumed as the associated cost-drivers.

ASSIGNMENT

State whether the following statements are True or False:
1. There is no difference between costing and cost accounting .
2. Cost reduction is a temporary process carried out for a specific unit.
3. The results of financial and cost accounting are always same.
4. Cost accounting helps in fixation of price of the product manufactured or service rendered.
5. The process of cost accounting remains uniform for all companies across industries.
6. Cost accounting depends largely on financial statements.
7. Maintaining cost records is tedious and leads to duplication of work.