Unit-1

Cost Accounting is a business practice in which we record, examine, summarize, and study the company's cost spent on any process, service, product or anything else in the organization. This helps the organization in cost controlling and making strategic planning and decision on improving cost efficiency. Such financial statements and ledgers give the management visibility on their cost information. Management gets the idea where they have to control the cost and where they have to increase more, which helps in creating a vision and future plan. There are different types of cost accounting such as marginal costing, activity-based costing, standard cost accounting, lean accounting. In this article, we will discuss more objectives, advantages, costing and meaning of cos

Features of Cost Accounting

It is a sub-field in accounting. It is the process of accounting for costs
Provides data to management for decision making and budgeting for the future
It helps to establish certain standard costs and budgets.
provides costing data that helps in fixing prices of goods and services
Is also a great tool to figure out the efficiency of a unit or a process. It can disclose wastage of time and resources.

Objectives of Cost Accounting:

Objectives of cost accounting are ascertainment of cost, fixation of selling price, proper recording and presentation of cost data to management for measuring efficiency and for cost control and cost reduction, ascertaining the profit of each activity, assisting management in decision making and determination of break-even point.

The aim is to know the methods by which expenditure on materials, wages and overheads is recorded, classified and allocated so that the cost of products and services may be accurately ascertained; these costs may be related to sales and profitability may be determined. Yet with the development of business and industry, its objectives are changing day by day.

Following are the main objectives of cost accounting:

1. To ascertain the cost per unit of the different products manufactured by a business concern;
2. To provide a correct analysis of cost both by process or operations and by different elements of cost;

3. To disclose sources of wastage whether of material, time or expense or in the use of machinery, equipment and tools and to prepare such reports which may be necessary to control such wastage;

4. To provide requisite data and serve as a guide for fixing prices of products manufactured or services rendered;

5. To ascertain the profitability of each of the products and advise management as to how these profits can be maximised;

6. To exercise effective control if stocks of raw materials, work-in-progress, consumable stores and finished goods in order to minimise the capital locked up in these stocks;

7. To reveal sources of economy by installing and implementing a system of cost control for materials, labour and overheads;

8. To advise management on future expansion policies and proposed capital projects;

9. To present and interpret data for management planning, evaluation of performance and control;

10. To help in the preparation of budgets and implementation of budgetary control;

11. To organise an effective information system so that different levels of management may get the required information at the right time in right form for carrying out their individual responsibilities in an efficient manner;

12. To guide management in the formulation and implementation of incentive bonus plans based on productivity and cost savings;

13. To supply useful data to management for taking various financial decisions such as introduction of new products, replacement of labour by machine etc.;

14. To help in supervising the working of punched card accounting or data processing through computers;

15. To organise the internal audit system to ensure effective working of different departments;

Scope of Cost Accounting
Cost accounting is being widely applied by the production units to modify the process and maximise the profit.

Following are the various applicabilities of the cost accounting techniques
Cost Analysis: Cost accounting determines the deviation of the actual cost as compared to the planned expense, along with the reason for such variation.
Cost Audit: To verify the cost sheets and ensure the efficient application of cost accounting principles in the industries, cost audits are done.
Cost Report: Cost reports are prepared from the data acquired through cost accounting to be analysed by the management for strategic decision making.
Cost Ascertainment: To determine the price of a product or service, it is essential to know the total cost involved in generating that product or service.
Cost Book Keeping: Similar to financial accounting; journal entries, ledger, balance sheet and profit and loss account is prepared in cost accounting too. Here, the different cost incurred is debited, and income from the product or service is credited.
Cost System: It provides for time to time monitoring and evaluation of the cost incurred in the production of goods and services to generate cost reports for the management.

Cost Comparison: It examines the other alternative product line or activities and the cost involved in it, to seek a better opportunity for generating high revenue.
Cost Contol: Sometimes, the actual cost of a product or service becomes higher than its standard cost. To eliminate the difference and control the actual cost, cost accounting is required.
Cost Computation: When the company is engaged in the production of bulk units of a particular product or commodity, the actual per-unit cost is derived through cost accounting.
Cost Reduction: It acts as a tool in the hands of management to find out if there is any scope of reducing the standard cost involved in the production of goods and services. Its purpose is to obtain additional gain

Limitations of Cost Accounting
Cost accounting is a complex stream of accounting. It requires a lot of analysis and calculations to give accurate results.

To know more about the limitations or objections about cost accounting, read below:

Cost accounting is not sufficient alone to control or reduce the cost of products or services. It is necessary to use the data so generated to take corrective actions which require a lot of experience and expertise.

Moreover, it differs from the financial accounting we practice in day to day life. To get an accurate result, a reconciliation statement has to be prepared.

In the books of accounts, many entries have to be made twice; once in the final accounts and then in the cost accounts, which is a tedious process. Due to the lengthy process of duplicate entries, there is a need for additional efforts from the personnel. Thus it increases the labour charges for the organisation.

It is majorly applicable to the industries, factories and manufacturing units where some production function takes place. It is less useful for service industries.

Conclusion
Cost accounting can be seen as a self-assessment tool in the hands of management. It acts as a source of information like closing inventory, capital expenditure, direct and indirect cost, etc. for the preparation of financial accounts of an organisation.

Differences Between Cost Accounting vs Financial Accounting
Let us discuss some of the major differences between Cost Accounting vs Financial Accounting:

1. Cost accounting focuses on assessing per unit cost incurred to produce and sell the products so that it can be sold at the right price while Financial accounting is focused on all monetary transactions so that it can determine the profitability and financial health of a firm

2. Cost accounting is an internal instrument for the management to measure efficiency and make a decision related to the operations of a company. On the other hand, Financial

accounting prepares financial statements to show performance to the entities external to the company like investors and credit

Cost Accounting is a method that records and analyses the cost incurred (per unit) during the production of goods. It analyses input cost, individually, at every functional stage including production, administration, R&D, selling & distribution. Financial Accounting involves recording and analyzing all the financial transactions of a company for a specific period of time. It is then summarised into financial statements that show the profitability of a company or the outcome of operations.

Key Differences Between Cost Accounting vs Financial Accounting
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2. Cost accounting is an internal instrument for the management to measure efficiency and make a decision related to the operations of a company. On the other hand, Financial accounting prepares financial statements to show performance to the entities external to the company like investors and creditors, etc.
Cost accounting: Management use it for budgeting, cost control, cost reduction, and inventory management among others so that it can improve margins
Financial accounting: It is useful for people outside the firm to know if the company is operating efficiently and the money invested by outsiders will be able to generate returns or not.

Items Excluded from Cost Accounts. The following items which are included in the financial accounts of a manufacturing concern, shall not be included in cost accounts since they are not related to cost of production:

1. Items of Appropriation of Profit
(a) Income tax paid and legal expenses incurred in connection with the assessment of income tax.
(b) Transfer to reserves.
(c) Dividends on shares paid by a company.
(d) Amount written off — goodwill, preliminary expenses, underwriting commission, discount allowed on shares or debentures.
(e) Bonus paid to the employees of the undertaking, if such payment is based on profits.
2. Items of Pure Finance
(a) Interest and dividends received on investments.
(b) Rent received.
(c) Profit or loss on sale of investments, fixed assets etc.
(d) Expenses on raising capital.
(e) Cash discount allowed or received.

3. Abnormal items
(a) Cost of abnormal idle time.
(b) Cost of abnormal wastage of materials.
(c) Exceptional bad debts.
(d) Abnormal saving.
(e) Penalties and fines paid for the infringement of Govt. rules and regulations.

Costing – An Aid to Management

The management of any organization is responsible for the running of the business. It has three main functions, namely planning, decision-making and controlling. So the management and the managers use various tools and processes to help them in their functions. One such process is costing. Let us explore the concept of, Costing – An Aid to Management.

Functions of Management

1] Planning

Planning comprises of the management setting objectives, goals, and missions for the far and the near future of the organization.

Then the management plans the course of action and the activities to achieve these goals. There should also be alternatives and back-up plans. So planning is essentially concerned with future events, budgets

2] Decision-Making

This is one of the most important functions of management. Every aspect of running a business involves decision-making.

For example, the fixing of prices, the increase or decrease of prices in different economic scenarios, the capacity at which the plant should operate, an introduction of a new product, entry into a new market etc.

To enable the management to take decisions, they need information. Only then can they take rational, scientific decisions.

3] Controlling

In controlling, managers compare the actual numbers of the firm with the planned or budgeted numbers to identify any deviation and variances.

In case the performance of the firm is lacking then the reason for this is investigated. The idea is to bring the actual numbers as close to the planned numbers as possible.

One of the main aspects of control is the prompt correction of mistakes and inefficiency. For this managers need up-to-date information around the clock

Costing – An Aid to Management

Costing – An Aid to Management basically means that cost accounting helps the management in carrying out most of its functions. It provides basic cost data and performs cost functions that provide the management will all the information they require.

It standardizes, records, analyzes, compares, reports and makes recommendations. Only financial accounting data will not suffice, as it will not provide the management will all the data it requires. A good cost account system helps the management in the following ways,

Classification of Costs: Costs are collected and then classified in various categories and under various heads. This provides more information about the type of costs and allows for cost ascertainment and finding the profitability of each area of activity or each product.
Control of Costs: Costing allows the management to keep control of materials, labour, and overheads. A check is kept on the stores and materials ledger. This points out any theft, loss etc. Costing also provides relevant information about labour costs via machine hours and labour capacity etc. It also classifies overheads as variable and fixed to help us control these costs.
Budgeting: These include the analysis of budgets and performance reports. First costing helps with forming the budget, i.e. the quantification of the plans of the management. Then it measures deviances of the budget from the actual performance numbers according to the performance report. It also helps find the reason for deviances and helps solve any problems.
Price Determination: One of the first things cost accounting is to do is make the distinction between variable and fixed costs. This allows the management to fix remunerative prices for their products according to the economic situation prevailing at the time.
Expansion Plans: If the management of a firm wishes to expand then this decision will be based on the information that costing provides. The entire expansion policy will depend on the cost of production at various production levels.