Cost Accounting

- A systematic set of procedures for recording reporting and measurement of cost of manufacturing goods and providing services in the aggregate and in detail, is known as cost Accounting.
- It is an art as well as science and is a prime part of accounting system which records systematically the cost involved in raw materials, labour and other expenses used in the process of production and at the same time determine the total cost and unit cost of product.
- It is mainly related with the planning of cost, use of cost and control of cost. It ascertain the cost of every work order, job, process, services of such unit of output as may be appropriate.
- R.N. Carter defined cost accounting as a system of recording in accounts the materials used and labour employed in the manufacture of a certain commodity or on a particular job.

objectives of cost Accounting

- cost Accounting is one of the major accounting system which are associated with the classifying, analyzing, recording, reporting the financial information regarding the cost and cost determination of a particular job or product. So the main aim of the cost accounting is to know about the actual cost of a product. The objectives of cost Accounting are as follows:-

1) To calculate per unit cost

Cost accounting calculates per unit production cost of a product or a particular job. first total cost is calculated and per units cost is ascertained. All the components of cost of production level are listed and collected by the cost accounting Department. Direct and indirect cost of production are ascertained and converted into per unit rate.

2) To know inefficiency and carelessness

Inefficiency and carelessness may create the wastage or idle time in production process of a factory. Such events may lead wastage, leakage, pilferage, stealing and breakdown of machinery used in the production. It may cause huge cost for the factory which will be the main cause for high cost of production.

3) To analyze the cost

cost accounting information are used to analyze the cost involved for the production. It makes the comparative analysis of different cost with the past cost data. Comparative study may help to get genuine information to draw a real conclusion. The improvement or decline of business performance can be understood by such analytical study.

4) To fix the selling price
on the basis of cost of production, company may fix the reasonable selling price. If the selling price is high product will not be said in the market. So, exact cost of production is needed to fix the selling price. cost accounting provides the actual cost of production and by adding profit margin the selling price is Determined.

5) To identify the profitability of Job
Differente units or Job area carried out by the production system. which Job is profitable or which is not profitable should be identified. It is done by the help of cost accounting data. Adequate utilization of available resources is needed. cost accounting indicates about the optimum utilization of resources.

6) To support the operating policy
costing data provides the necessary information for the formulation of operating plans and policy of organization. future plans and policy are to be formulated properly. The profitability or feasibility of plans are estimated by cost accounting data.

7) To calculate stock
values of stock are calculated on the cost basis by the cost accounting system. Balance of stock is identified by it. It makes the proper handling of stock on time so that the units to buy at which time & what unit is known by cost Accounting Data.

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4. Advantages and importance of cost Accounting
* following are the main advantages and importance of cost Accounting.

1) Identification of profitable and Non-profitable Activities
In large scale production of different goods and services, some of the activities or job may run on profit and some of the job on loss. But major problem is that which activities are running in the profit must be identified. Non profitable activities can be corrected or dropped out.

2) Utilization of Resources
Factory or any manufacturing entities cannot survive with proper utilization of it's resources in productive sectors. Full utilization of resources may reduce the cost of production. In opposite the cost of production may be high. cost accounting can identify about the proper utilization of resources.

3) Guidelines for future production policy
Every successful production plans are prepared on the basis cost accounting information past cost accounting record are consulted for the preparation of efficient plans and policy for future. cost estimation and price list of tender are also submitted by the help of cost accounting data.

4) cost control and cost Reduction
cost accounting is one of the major accounting devices for controlling unnecessary cost which can be minimized or reduced. It fix the budget or plans for every activities like sales, purchase, material consumption material purchase for future efficient running of the organization. It may fix the responsibility of each activities and job.

5) fixing the selling price
Management cannot fix a reasonable selling price with knowing the cost of production of that product. If the management has correct cost of production of a product it can fix a suitable and competitive selling price by adding reasonable profit margin. Necessary information for determination of selling price is supplied by the cost accounting department to management accounting depart

6) Decision making
Right decision on right time is to be taken otherwise no business can exist for long run. Major decision are taken by consulting the cost accounting data supplied by the cost accounting department. Decision like make or buy continue or discontinue, replacement, are to be taken by obtaining information from the costing data.

7) Inventory Management
Inventory management are the stock of raw materials, working progress, and finished goods at a certain period of time. Inventory must be properly handled otherwise sometimes there may be shortage of required material or something there may be excess stock during off season time.

Limitations of Cost Accounting

1) Expensive
It is an expensive job to collect, classify, analyze and control the cost. A separate costing department with qualified person is required so small organization may not be used it.

2) Lack of uniform principles or methods:
Different principles and rules may be used by different cost accountents about the item to be included in cost so that the results of different accountent may be vary of some data.

3) Less contribution towards future:
cost accounting has less contribution to solve the future problem. It is still failed to develop the reliable technique to settle the inflation.

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4) Not an exact Science

Cost accounting is not an exact science for calculation of total cost of production. Some of the indirect cost cannot be estimated as per units basis. For example the contribution of gate keeper or sweeper cannot be allocated on the per unit basis. Just the direct cost can be calculated as per unit.)

5) No perfect Solution

It can be consulted while taking the decisi in the organization. Management cannot take decision only on the basis of the cost accounting data. It does not provide hundre percent correct or reliable data to the high authority of organization for taking major organizational Decisions.

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Management Accounting

- Mgmnt accounting is a branch of accounting which is concern with supplying relevant information to managers at appropriate time to enable them to take decision in organization.
- It is the process of accounting which generates accounting information from financial and cost accounting and provide essential information to decision making both inside and outside the organization.
- It provides the information to all level of mgmnt for planning, controlling and decision making.
- According to R.N. Anthony "Mgmnt accounting is concerned with accounting information that is useful to mgmnt."

Objectives of Management Accounting

- Management accounting is responsible and capable for utilizing the accounting records and report for handling the procedure, technique to obtain the operating and management efficiency of enterprise. For fulfilling this very challenging task, following are the major purpose of management accounting.

1) To help in planning and formulation of polic[y]
plan is the future course of action whi[ch] defines what to do? when to do? How to d[o]? To whom to do? And where to do?

Management accounting provides necessary financial information to top level management for decision about future plans and policy. Correct financial plans can direct us towords the right way. Therefore, the management accounting is one of the major sources of information for fixing the future course of action.

2) To organize Activities

Management accounting helps to establish relationship among different department or activities run under the same institution. co-coordinated activities are established by making the budget and fixing the responsibilities among the different product job or activities. By intensive study and reform of organizational structural of the different activities.

3) To interpret the financial information

Management accounting explains the financial information to the decision making body for finding out the truth while taking decision. It is kept to find out the causes for success and failure of business activites. This accounting is responsible to find out the reliability and suitability of any events happened in the financial matter. Account is a techniqual matter which is not possible to be understood by everybody without having sufficient knowledge of Account.

4) To Help in controlling the performance
Management accounting helps to control the performance of different responsibility centre and it committed to take the corrective action for control of any defect. By the help of standard costing it finds out the variance of materials, labour, and overheads for performing its task. If any unfavourable variance is found out then the management can take the necessary action for correcting the activities.

5) To Motivate staffs
Management accounting helps to set the goal, standard, appropriate policy, for accomplishing the main objectives of the organization. frequent Supervision, trading facility and maintaining friendly relationship among all related department helps to make the interest towards the Job.

6) To help in Decision Making.
Any long term decision cannot be taken without consulting the management accounting department. Management accounting plays very vital and decisive role for making the Decision. It Supplies the necessary information and makes the interpretation of the information to the top level mgmt for taking Decision.

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Advantages and importance of management Accounting.

following are the main advantages of managem-ent accounting are:-

1) management accounting provides information for formulation of plans and policy for institutional development.
2) It helps to enhance control device for controlling the entire operational efficiency of organization.
3) It actively helps in day to day managerial, administrative activities for successful running of organization.
4) management accounting assists for utilizing the resources of enterprises in productive sectors.
5) It helps to increase the productivity of labour by offering them best facility to motivate for doing Job honestly.
6) management accounting helps to maintain a good relationship with the customers by offering qualitative goods & services.

Limitations of Mgmnt Accounting

1) Based on accounting information: It is based on data and information provided by financial & cost account. So effectiveness, accurate and correctness of mgmnt A/c is depends upon the quality of data provided by cost and financial Account.
2) Requires more knowledge: The use of mgmnt accounting requires the knowledge of various

related subjects which is difficult.

3) Expensive: use of mgmnt a/c requires high cost so it is expensive to small organization

4) chances of personal bias: The interpretation of financial information may differ from person.

Differences between cost and management Accounting

Basis	cost Accounting	Management Accounting
1) objectives	It's objectives is to determine and record the cost of manufacturing goods or Services.	It's objectives is to assist managers by providing information for planning, controlling and decision making.
2) Scope	It's scope is limited in cost determination record.	It's scope is very wide and which include cost a/cing, financial accounting & so on.
3) uses of Data	Quantitative aspect only is recorded.	It uses both qualitative and quantitative information.
4) Following	Certain principles & procedures are in Cost determination	No Specific principles & procedures are being followed.

5)

Basis of objective

1) objec-ves

5) Nature	It deals both past and present fact & figures	It deals with future plans and predictions

Difference between cost & financial Accounting :

Basis of objective	Financial Accounting	Cost Accounting
1) objectives	The main objective of financial accounting is to provide financial information about the financial position and profit and loss of the business concern.	The main objectives of cost accounting is to providing cost information to management for appropriate planning, controlling and decision making.
2)	It records and provides information to meet the legal requirement of company act and income tax act. It is obligatory by law.	It is maintained to meet the requirement of management for cost control and decision making. It is not obligatory by law.
3)	It does not consider controlling cost of materials, labour and overhead.	3). It mainly emphasizes to control materials labours and overhead along with record keeping.
4)	It prepares the financial statement at end of the each year.	4) It gives information management when information required.

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5) Stocks are valued at cost or market price whichever less is.	5) Stocks are valued at cost price.
6) It is prepared to fulfill external users requirement that is shareholder, owner's customer's, investor, government authorities.	6) It is prepared to fulfill internal users requirement that is managers, staff, Supervisors etc.
7) It includes all types of expenses relating to business operation.	7) It includes expenses related to production only other financial expenses are not included.
8) It is suitable to all types of business concern.	8) It is useful especially to production and services oriented firm only.

Role of accounting in decision Making

- All organization need information whether they are profit seeking or non-profit enterprises. As a result, accounting information is vital in all organizations. Accounting is also called language of business because it communicates so much information to the stakeholders.
- All organization have accountant who provide information to management for setting plans and policies as well as taking decision in their areas.
- Accounting reports although it is prepared by an account is the subject of higher level management. The top management plays a

great role in integrating all the activities by mobilizing different sources. Accounting plays a important role in planning and decision making as follows.

1) planning : planning is the process of thinking in advance about future activities. It is forward thinking process that contemplates to manage the uncertainities & risks.

2) Decision making: It is the process of selecting the best perceived alternative from the available different options. It is to be done in all levels of management. organizational sources primarily depend upon the decision made by management.

financial Decision in a firm

- financial decision is a process which is responsible for all the decision related with funds that is liabilities and stockholder's equity of the company as well as the issuance of bonds
- There are four main financial decision - Capital Budgeting or Long term investment decision (Application of funds) Capital structure or financing decision (procurement of funds) Dividend decision.

financial decision making process involves 5 steps:

1) Identify the decision to be made
2) gather information

3) Identify the Alternatives
4) weigh the evidence
5) choose the alternative take action
6) Review the Decision

Cost Concept and Classification

Meaning of Cost

- Cost may be defined as the amount of expenditure incurred on production of goods and providing services.
- Cost denotes the monetary resources that have been sacrificed to obtain particular objectives.
- Cost is the amount of monetary resources given up in exchange for some goods and services. The resources given up are generally expressed in monetary terms.
- There are different types of cost that is prime cost, direct cost, indirect cost, fixed cost, variable cost, semi variable cost and others.

A/c to W.M Harper's : A cost is the value of economic resources used as a result of producing or doing the things costed.

chartered institute of Management Accountant London defines the cost as "The amount of expenditure (actual or notional) incurred on or attributable to a given things.

Classification of Cost

• It is the process of grouping costs according to their common characteristics. A suitable classification of costs is the vital important in order to identify the costs with cost centre or cost units. The important way of classifications are:-

1) Classification according to elements (nature):
According to this classification the costs are divided into three categories that is material, labour and other expenses.

→ Materials ⇒ The group of physical commodities which are used to make final product that is known as materials. It includes the raw materials, components, accessories maintenance materials etc. Material are two types Direct and indirect materials.

→ Labour ⇒ The remuneration paid to employee for utilization of their services in production work is known as labour cost. It is the expenditure relating to labour. Labour costs are two types: Direct and Indirect labour cost.

→ Other Expenses ⇒ All expenses made by manufacturing or service orgn. other than materials and labour is known as other expenses. It may be direct and indirect e.g. insurance, rent, lighting, excise duty.

2) Classification according to functions :
organization various activities to operate business smoothly. It leads to grouping of cost according to the functions of business under taking that is Production. Administrative, Selling and Distribution Cost.

i) Production Cost : All expenses incurred on processes & operations which Commence from the receipt of work order till the Completion ready for Delivery to Customer is called production cost. It is also called manufacturing or factory cost.
Eg: office rent, taxes, legal expenses, salary

ii) Administrative Cost : It Consists all expenses incurred in formulating the policies, direction of the orgn. and controlling the operations of an undertakings which are not directly connected to production, Selling and Distribution activities. Eg office rent, taxes, legal expenses, salary etc.

iii) Selling Cost : All expenses incurred in Securing & retainning Customers for the poduct are Selling cost (expenses) since, they have been spent on Creating & maintaining demand for the poduct.

iv) Distribution Cost : The expenses Concerned with the delivery and dispatch of finished goods to Customers, is Distribution Cost. Example packing exp, loading exp, carriage outward etc.

3) classification according to Behaviour/variability

i) Fixed Cost ⇒ fixed costs are those cost which remain constant for all or different level of output. The total amount of fixed cost remain constant for different level of output but per unit will change. ex rent and Depreciation etc.

ii) Variable Cost ⇒ Costs that change directly and proportionally with the change in level of output is called Variable Cost. It's total cost varies in direct proportion to output but per unit cost of product remain Constant.

iii) Semi-Variable Cost ⇒ A cost containing both fixed as well as variable element is known as semi-variable cost. It is fixed up to certain level of output than changes according to output. example telephone bill, electricity charges etc.

4) Classification according to Managerial Decisions

i) Relevant and irrelevant Cost

⇒ Relevant cost may be defined as the costs which are affected and changed by a decision. These costs are the future costs which differ differ bet[illegible] alternati-ves. So such cost must be included while making Decision. Examples Cost of raw materials, labour and variable costs are [illegible]sent for production.

⇒ Irrelevant Cost: are those costs which remain the same and not affected by the decision whether alternatives is choose. Such cost might be ignored while making Decision. Example: Managers remuneration, rent of Building etc.

ii) Avoidable and unavoidable cost

• Avoidable cost are those which can be identified with an activity or of a business sector or a job and which would be avoided if the activity or sector or job were not under taken. Eg: Salary of the employee of a particular department can be eliminated if the deposit is discontinued.

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- Unavoidable cost: is that cost which can not be eliminated or avoided even that activity or department dose not exist. Example salary of factory manager can not be eliminated if a product is eliminated.

iii) Opportunity Cost

opportunity cost is the cost of opportunity lost. it is the potential benefits foregone (given up) as a result of the rejection of alternative uses of resources. So the value of a benefit sacrificed infavour of a alternative courses of action is known as opportunity cost.

iv) Marginal cost

Marginal cost is the total of variable cost that is prime cost plus variable cost. In marginal costing all fixed costs are ignored and only variable cost are taken ito consideration for determining the costs of product, value of work in-progress and finished goods.

v) Differential and Increment Cost

Differential cost is the increase or decrease in total cost due to change in alternative or operation of a particular managerial decision. If the changes in alternative increases the cost, it is called increment costs, if decreases called detriment cost.

v) Sunk Cost

Sunk cost are historical costs which are incurred or are sunk in past and are not relevant to the particular decision making. 2)

vi) Controllable and uncontrollable Cost

- Controllable cost are those which can be influenced (controlled) by the action of a specified members of mgmnt within limited time. All variable cost are the example of controllable cost.

- Uncontrollable costs are these which can not be controlled by the action of a specified members or mgmnt within limited time. All fixed costs are non controllable cost. examples dep, rent etc.

4. Methods of Costing

- The techniques and process of ascertain costs of product or services is called costing. The methods to be used for the ascertainment of cost of production differ from industry to industry.

1) Job Costing:

under this method, costs are collected and accumulated for each job, work order project separately. Each job can be separately identified. So, it becomes essential to analyze the cost accumulation.

2) Contract costing
When the job is big and spread over long periods of times, the method of contract costing is required. A separate account is kept for each individual contract. This method is used by builders, civil engineering contractors, constructional and mechanical engineering firms.

3) Batch Costing
This is an extension of job costing. A batch may represent a number of small orders passed through the factory in batches. Each batch is treated as a unit of cost and separately costed.

4) Process Costing
It is suitable products is continuous. The finished goods or product of one process becomes the raw materials of the subsequent process, different products are produced with or without by-products are produced simultaneously.

5) Service Costing
It is a system of determining cost of service rendered by service sectors. This is applied in transport undertaking power supply companies, municipal services, hospital, hotels etc.

Techniques of Costing

• Following are the important costing techniques that can be used for the purpose of managerial planning, decision making and controlling business Activities.

1) Standard Costing:
A Comparison is made of the actual cost with a pre-arranged standard and the cost of any deviation (any variances) is analyzed by causes. This permits the management to investigate the reason for these variances and to take suitable corrective action.

2) Marginal Costing:
It is the ascertainment of marginal cost by differentiating between fixed and variable cost. It is also called variable costing or direct costing. It considers direct materials direct labours, direct expenses and variable manufacturing overheads as a part of production. It is used for internal reporting purposes.

3) Absorption Costing
It is the practice of charging all costs both variables and fixed costs to operations processes or products. This differ from marginal costing where fixed manufacturing overheads cost are excluded. It is used for external reportings.

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4) Historical costing
It is ascertainment process they have been incurred. It aims of ascertaining costs actually incurred on work done in the past. It has a limited utility, though comparisons of costs over different periods may yield goods result.

5) Direct costing
The practise of charging all direct costs to operation, process or product leaving all indirect costs to be written off against profit in the periods in which they arise, is termed as direct costing.

6) Uniform Costing
A techniques where standarized principles and methods of cost accounting are employeed by a number of different Companies and firm is termed as uniform costing.

7) Activity based Costing
Activity based costing is an effective management for distributing and Controlling the overhead Costs. It is a techniques of allocation or absorption of overheads incurred on production process to the cost Centre using suitable basis.

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Segregation of Semi Variable Cost

- It Consists of both variable costs and fixed cost and thus partly affected by a change in level of activity. Examples are electricity charge, telephone charge etc.
- Separation of Semi-variable Cost into variable and fixed Cost is Called Segregation of Cost. Division and Distribution of total cost in variable Cost per unit and fixed cost is the real Segregation of Semi-variable cost.
- Thus, it is the process of classified Semi-variable cost into fixed and variable cost. It is needed to classified in Semi variable cost.