

Cost Accounting

Meaning:

Cost accounting is the classifying, recording and appropriate allocation of expenditure for the determination of the costs of products or services, and for the presentation of suitably arranged data for purposes of control and guidance of management. It includes the ascertainment of the cost of every order, job, contract, process, service or unit as may be appropriate. It deals with the cost of production, selling and distribution.

It is thus the provision of such analysis and classification of expenditure as will enable the total cost of any particular unit of production or service to be ascertained with reasonable degree of accuracy and at the same time to disclose exactly how such total cost is constituted (i.e. the value of material used the amount of labour and other expenses incurred) so as to control and reduce its cost.

Difference between Costing and Cost Accounting:

Main differences between costing and cost accounting are given as under:

<i>Basis of Distinction</i>	<i>Costing</i>	<i>Cost Accounting</i>
1. Nature	It is a technique and process of ascertaining costs.	It is regarded as a specialised branch of accounting.
2. Scope	The costing techniques include principles and rules which govern the procedure of ascertaining the cost of products/services.	It involves classification, accumulation, assignment and control of costs.
3. Process	The process of costing consists of routines of ascertaining costs by historical or conventional costing, standard costing or marginal costing.	It involves establishment of budgets, standard costs or actual costs of operations, classification, recording and appropriate allocation of expenditure.

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 maximized.
6. To exercise effective control if stocks of raw materials, work-in-progress, consumable stores and finished goods in order to minimize 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.

The advantages of cost accounting are:

Disclosure of profitable and unprofitable activities

Since cost accounting minutely calculates the cost, selling price and profitability of product, segregation of profitable or unprofitable items or activities becomes easy.

Guidance for future production policies

On the basis of data provided by costing department about the cost of various processes and activities as well as profit on it, it helps to plan the future.

Periodical determination of profit and losses

Cost accounting helps us to determine the periodical profit and loss of a product.

To find out exact cause of decrease or increase in profit

With the help of cost accounting, any organization can determine the exact cause of decrease or increase in profit that may be due to higher cost of product, lower selling price or may be due to unproductive activity or unused capacity.

Control over material and supplies

Cost accounting teaches us to account for the cost of material and supplies according to department, process, units of production, or services that provide us a control over material and supplies.

Relative efficiency of different workers

With the help of cost accounting, we may introduce suitable plan for wages, incentives, and rewards for workers and employees of an organization.

Reliable comparison

Cost accounting provides us reliable comparison of products and services within and outside an organization with the products and services available in the market. It also helps to achieve the lowest cost level of product with highest efficiency level of operations.

Disadvantages of Cost Accounting

1.Lack of uniformity:

Cost accounting lacks a uniform procedure. It is possible that two equally competent cost accountants may arrive at different results from the same information. Keeping this limitation in view, all cost accounting results can be as mere estimates.

2. Conceptual diversity:

There are a large number of conventions and flexible factors such as classification of cost into its elements, issue materials on average or standards price, apportionment of overhead expenses, arbitrary allocation of joint costs, division of overhead into fixed and various and variable costs, division of cost into normal and abnormal and controllable and non-controllable and adoption of marginal and standard costs due to which it becomes difficult to have exact costs. In which a contacts, the reliable of cost accounting might be low.

3. Costly:

There are many formalities which are to be observed by a small and medium size concerned due to which the establishment and running costs are so much that it becomes difficult for their concerned to afford us cost. Thus it can be used only by big concerned.

4. Ignorance of futuristic situation:

The contribution of cost accounting for heading futures situation has not been much for example, it is has not evolved so far any tool for heading inflation situation.

5. Lack of double entry systems:

Under cost accounting, a double entry system is not adopted that does not enable to checks the arithmetic's accuracy of the transaction and locate the errors.

6. Developing stage:

Cost accounting is to develop stage since its principle concepts and conversions are not fully developed.