

THEORY. Cost Accounting

Meaning →

Costing → It is a technique & process of ascertaining the cost.

Cost Accounting

Cost Accountancy

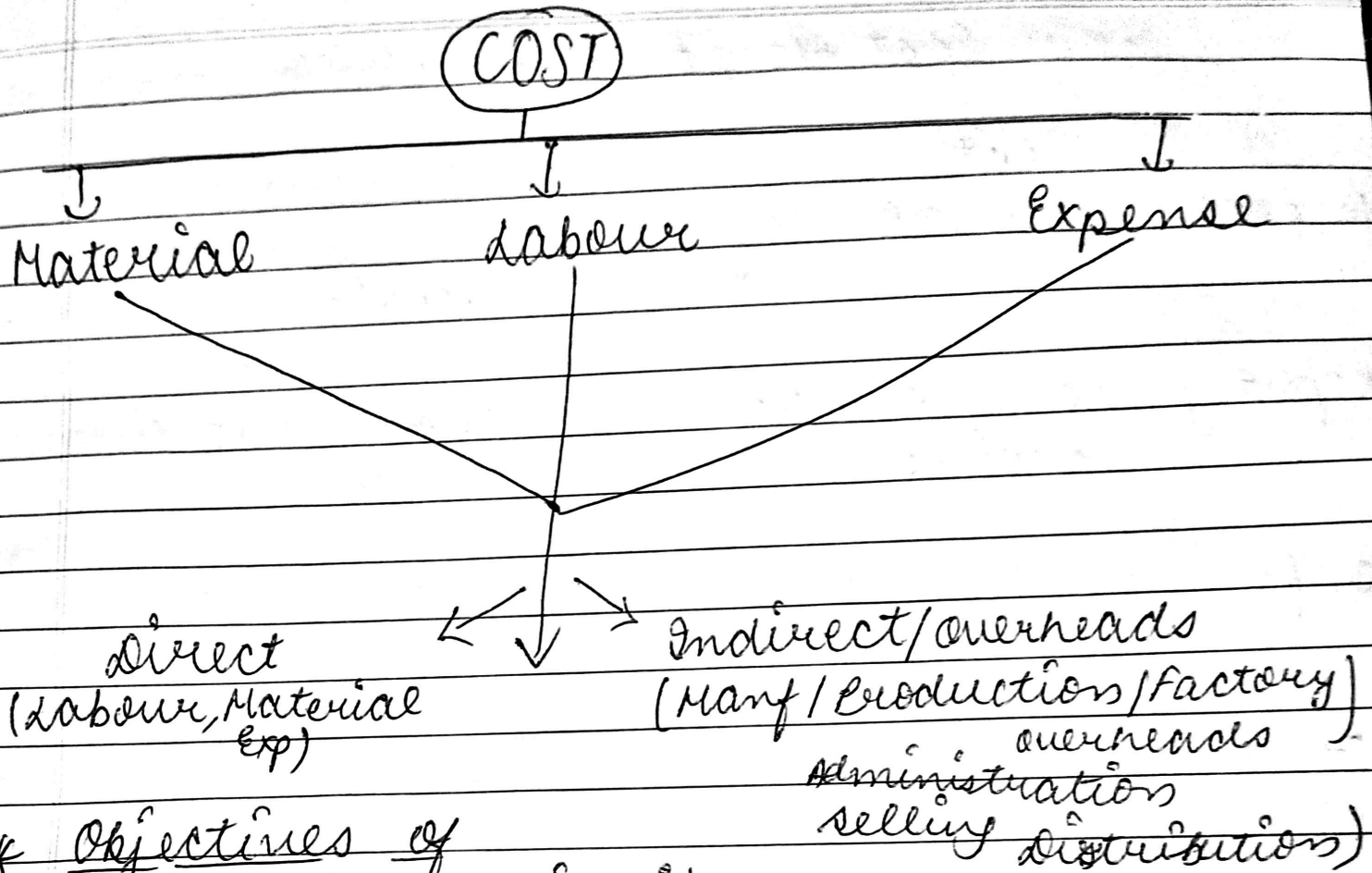
The art & practice of following techniques for cost accounting

* Limitations of financial accounting →

- 1) No clear idea of operating efficiency
- 2) Weakness not supported by collected results
- 3) Not helpful in price fixation
- 4) Not helpful in decision making
- 5) Not control over cost
- 6) Only historical information

* Scope of cost accounting → Imp & significance

- 1) Cost ascertainment
- 2) Cost accounting
- 3) Cost control
- 4) Cost reduction
- 5) Cost audit
- 6) Cost comparison



* Objectives of Cost Accounting :-

- 1) To ascertain cost per unit.
- 2) To help him price fixation
- 3) To ascertain the profitability of each product.
- 4) To minimize the capital block
(Raw Material + working progress + Finish goods).
- 5) Wise management for expansion
- 6) Cost reduction programme.

* Advantages :-

* Profitability + non-Profitability activities + differentiation

Cost A/c / Financial A/c

	Cost	Financial
Purpose	General way	Proper way → related to product ← & service
Reporting	as and when desire	end of the financial year
Info	Monetary as well as non-monetary	Only Monetary
Stock Valuation	At Cost	At cost or market price whichever is less.
Data	Historical & present estimates.	Historical

Cost accounting information system/
costing system.

* steps in designing a system

- 1) Need of Managers
- 2) data collection
- 3) objectives will be sent
- 4) prior testing

* Features of a ideal costing system

- 1) suitable to the business
- 2) simple
- 3) flexible
- 4) economical (cost benefit analysis)
- 5) support from the Management
- 6) Precise information

* Steps for Installation

- 1) Clear objectives
- 2) Studying the existing organisation
- 3) Deciding the structure
- 4) determine the cost rates
- 5) Introducing the systems
- 6) organising the office
- 7) Relationship with other departments
- 8) Clear Authority

* Critical difficulties (in installation)

- 1) lack of support from management
- 2) Resistance from existing staff
- 3) Non-cooperation from other departments
- 4) Shortage of trained staff
- 5) Expensive

* Numerical

Material - Raw Material (Direct) (Specifically Pur-Material)

* Direct Material - easy to identify & Measure

* Components of Main product

labour :-> Engaged in the production
 (Aid to manufacturing)

* Expenses - (Royalty, Excise duty) direct exp

$$\text{MATERIAL} + \text{LABOUR} + \text{EXPENSE} = \text{PRIME COST}$$

* Overheads.

Manuf / Prod / factory overheads } Prime cost
 + Add = Factory
 Works cost

Administrative -> + cost of production

Selling } + Total cost or cost of sales
 distribution }

Notes

* Cost Accounting -> Cost Accounting is the process of accounting for cost which begins with recording of income & expenditure & ends with the preparation of statistical data. It is the formal mechanism by means of which cost of products or services are ascertained & controlled.