J.s (P.G) COLLEGE SIKANDRABAD

SUBJECT- COST ACCOUNTING

B.COM- 2ND YEAR

TOPIC: Meaning, Nature ,Scope, Objectives and Techniques of Cost Accounting

Meaning of Cost Accounting:

An accounting system is to make available necessary and accurate information for all those who are interested in the welfare of the organization. The requirements of the majority of them are satisfied using financial accounting. However, the management requires far more detailed information than what conventional financial accounting can offer.
The focus of the management lies not in the past but on the future. For a businessman who manufactures goods or renders services, cost accounts a useful tool. It was developed on account of limitations of financial accounting and is the extension of financial accounting. The advent of the factory system gave an impetus to the development of cost accounting.
It is a method of accounting for cost. The process of recording and accounting for all the elements of the cost calls cost accounting
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Definition of Cost Accounting:

The Institute of Cost and Works Accountants, London defines costing as,
"The process of accounting for cost from the point at which expenditure incur or commit to the establishment of its ultimate relationship with cost centres and cost units. In its wider usage, it embraces the preparation of statistical data, the application of cost control methods and the ascertainment of the profitability of activities carry out or plan."

The Institute of Cost and Works Accountants, India defines cost accounting as,
"The technique and process of ascertainment of costs. Cost accounts the process of accounting for costs, which begins with the recording of expenses or the bases on which they are calculating and ends with the preparation of statistical data."

To put it simply, when the accounting process is applying to the elements of costs (i.e., Materials, Labour and Other expenses), it becomes Cost Accounting

Objectives of Cost Accounting:

It was born to fulfil the needs of manufacturing companies. Its a mechanism of accounting through which costs of goods or services are ascertaining and control for different purposes. It helps to ascertain the true cost of every operation, through a close watch, say, cost analysis and allocation.

<u>The main objectives of cost accounting are as follows:-</u>

1] Cost Ascertainment:
The main objective of cost accounts to find out the cost of product, process, job, contract, service or any unit of production. It is done through various methods and techniques.
2] Cost Control:
The very basic function of cost accounts to control costs. A comparison of actual costs with standards reveals the discrepancies (Variances). The variances reveal whether the cost is within the control or not. Remedial actions are suggesting to control the costs which are not within control.
3] Cost Reduction:
Cost reduction refers to the real and permanent reduction in the unit cost of goods manufactured or services rendered without affecting the use intended. It can be done with the help of techniques called budgetary control, standard costing, material control, labor control, and overheads control.
4] Fixation of Selling Price:
The price of any product consists of total cost and the margin required. Cost data are useful in the determination of selling price or quotations. It provides detailed information regarding various components of cost. It also provides information in terms of fixed cost and variable costs, so that the extent of price reduction can be decided.
5] Framing business policy:
It helps management in formulating business policy and decision making. Break-even analysis, cost volume profit relationships, differential costing, etc help make decisions regarding key areas of the business.

Nature and Scope of Cost Accounting:

Cost accounts concerned with ascertainment and control of costs. The information provided by cost-accounting to the management is helpful for cost control and cost reduction through functions of planning, decision making, and control. Initially, they confined itself to cost ascertainment and presentation of the same mainly to find out product cost.

What is the Importance of Customer Relationship Management (CRM)?

With the introduction of large-scale production, the scope was widened and providing information for cost control and cost reduction has assuming equal significance along with finding out the cost of production. To start with cost-accounting was apply in manufacturing activities but now it applies in service organizations, government organizations, local authorities, agricultural farms, Extractive industries and so on.

The guide for the ascertainment of the cost of production. It discloses as profitable and unprofitable activities. They help management to eliminate unprofitable activities. It provides information for estimates and tenders. They disclose the losses occurring in the form of idle time spoilage or scrap etc. It also provides a perpetual inventory system.

It helps to make effective control over inventory and for the preparation of interim financial statements. They help in controlling the cost of production with the help of budgetary control and standard costing. They provide data for future production policies. It discloses the relative efficiencies of different workers and for the fixation of wages to workers

Limitations of Cost Accounting:

The following limitations below are;

It is based on estimation: as cost accounting relies heavily on predetermined data, it is not reliable.

- **No uniform procedure in cost accounting**: as there is no uniform procedure, with the same information different results may be arrived by different cost accounts.
- **A large number of conventions and estimate**: There are several conventions and estimates in preparing cost records such as materials are

issuing on an average (or) standard price, overheads are charging on the percentage basis, Therefore, the profits arrive from the cost records are not true.

- **Formalities are more:** Many formalities are to be observed to obtain the benefit of cost accounting. Therefore, it does not apply to small and medium firms.
- **Expensive:** Cost accounts expensive and requires reconciliation with financial records.
- **It is unnecessary:** Cost accounts of recent origin and an enterprise can survive even without cost accounting.
- **Secondary data:** It depends on financial statements for a lot of information. Any errors or shortcomings in that information creep into cost accounts also.

Types or Techniques of costing

Following are the main types or techniques of costing for ascertaining costs:

1. Uniform Costing:

It is the use of same costing principles and/or practices by several undertakings for common control or comparison of costs.

2. Marginal Costing:

It is the ascertainment of marginal cost by differentiating between fixed and variable cost. It is used to ascertain the effect of changes in volume or type of output on profit.

3. Standard Costing:

A comparison is made of the actual cost with a pre-arranged standard cost and the cost of any deviation (called variances) is analysed by causes. This permits management to investigate the reasons for these variances and to take suitable corrective action.

4. Historical Costing:

It is ascertainment of costs after they have been incurred. It aims at ascertaining costs actually incurred on work done in the past. It has a limited utility, though comparisons of costs over different periods may yield good results.

5. Direct Costing:

It is the practice of charging all direct costs, variable and some fixed costs relating to operations, processes or products leaving all other costs to be written off against profits in which they arise.

6. Absorption Costing:

It is the practice of charging all costs, both variable and fixed to operations, processes or products. This differs from marginal costing where fixed costs are excluded.

Any of the methods of costing like unit or output costing, service costing, process costing etc. can be used under any techniques of costing.