Introduction to cost accounting

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Introduction

- In the initial stages cost accounting was merely considered to be a technique for ascertainment of cost of products or services on the basis of historical data.
- In course of time due to competitive nature of the market, it was realized that ascertainment of cost is not as important as controlling costs.
- Hence, cost accounting started to be considered more as a technique for cost control a s compared to cost ascertainment.
- Due to technological development in all fields, now cost reduction has also come within the ambit of cost accounting.
- Cost accounting is thus concerned with recording, classifying and summarizing costs for determination of costs of products or services, planning, controlling and reducing such costs and furnishing of information to management for decision making

Mobile Phones	2006 (Nokia, Sony)	2020 (Samsung)	2020 (JIO. VIVO APPO, SONY, NOKIA)
Cost mfg	7500+500+500	**11,000**	**7000**
+ Profits	2500	3000	3000
SP Phone	**12,000**	**10,000**	**10,000**

Meaning and Definitions of Cost Accounting

- “Cost accounting is a quantitative method that accumulates, classifies, summarizes and interprets information for three major purposes: (in) Operational planning and control ;(ii) Special decision; and (iii) Product decision.” -Charles T. Horngren
- “Cost accounting is defined as the application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability. It includes the presentation of information derived therefore for the purposes of managerial decision making. –Wheldon

Branches of Accounting

- a) Financial Accounting: This is called original accounting, which is mainly confined to the preparation of financial statement for the various concern parties and financial institutions.
- b) Cost Accounting: The process of accounting for cost which begins with the recording of income and expenditure or the bases on which they are calculated and ends with the preparation of periodicals statements and reports for ascertaining and controlling cost.
- c) Management Accounting: Management accounting is a distinctive form of resource management which facilitates management's 'decision making' by producing information for managers within organization.

Emergence of Cost Accounting

- The Institute of Cost and Works Accountants of India (ICWAI) was established as a company limited by guarantee for the development of cost accounting in India. The main purpose of this to develop the cost accounting as a profession.
- The maintenance of cost accounting records became mandatory since **1965,** after the addition of Sec.209 (1) (d) in the companies act 1956.
- The Institute of Cost and Works Accountants of India has recently issued cost accounting standard (CAS) 1 to 4 also to understand the subject in a better manner as follows :-
  - CAS 1 - Classification of cost
  - CAS 2 - Capacity determination
  - CAS 3 - Allocation and apportionment of overhead
  - CAS 4 - Cost of production for captive consumption

Advantages of Cost Accounting

- A good system of costing is the technique of controlling the expenditure and helps bringing economy in production, so it serves the needs of a large section of people in the following ways.
  - (a) Benefits to the Management: The information revealed by cost accounting aims at mainly assisting the management in decision making and optimizing profits.
  - Besides this there are certain advantages of cost accounting to the management i.e. it helps in price fixation, in revealing profitable and unprofitable activities, idle capacity, in controlling cost and also helps in inventory control.
  - (b) Benefits to the Employees: Cost accounting introduces wage scheme, bonus to the efficient & sincere employees which in turn increasing productivity, profitability and lowering cost.

Advantages of Cost Accounting

- (c) Benefits to Creditors: The better management of finance through cost accounting leads to timely debt servicing by company in the form of repayment of loan and payment of interest.
- To stay and grow in competition and for judging soundness of present and perspective borrower and cost reports give better picture of efficiency profit prospectus and capacity.

- (d) Benefits to the Government: Cost accounting enables the Govt. to prepare plans for economic development of the country, to make policies regarding taxation, excise duty, export, price, ceiling, granting subsidy etc.

- (e) Benefits to Consumers/Public: Cost accounting helps consumers in getting goods of better quality at reasonable price.

Limitations of Cost Accounting

- These are the following reasons for which cost accounting is criticized by the different sections of society:
  - a) Not Reliable: Cost Accounting is based on estimates and so it is not reliable.
  - b)Failure of the System: Cost Accounting system has failed to produce desired results in many concerns. Thus it could be said that this system is at fault.
  - c) Unnecessary: it is not necessary in Business concern as it involves duplication of work.
  - d) Inapplicability: Modern methods of cost accounting are not applicable to every type of industries.
  - e) Expenses: It is expensive because double set of account books has to be maintained and its introduction involves considerable amount of expenditure.

Difference between cost and Financial accounting

Basis	Cost Accounting	Financial Accounting
1) Purpose	Its main purpose to guide the management for proper planning, controlling and decision-making etc.	It reveals the final results during the particular period for every concern.
2) Coverage	It deals with expenses related to or identified with products.	This deals with whole organization connected with manufacturing and also other activities or areas.
3) Basis	This deals with estimated and actual data both.	This deals only with the actual financial transactions and figures and not on estimation.
4) Scope	It is related to a particular product or service.	It includes all commercial translation of organisation for a particular period of time.
5) Parties Involved	This deals with internal translations between departments within the organisation.	This concern with external parties as well as external transactions.
6) Final Statement	Only one statement is prepared i.e. statement of cost.	Profit & Loss A/c and balance sheet both are prepared.
7) Valuation of Stock	Stock is valued at cost	Market value or cost whichever is lower is considered as the value of stock.
8) Nature	It does not consider only historical records but also predetermined cost.	It is related to the historical records.
9) Classification	It is clearly classifies the cost into fixed and variable cost.	In this cost is not classified into fixed and variable cost.
10) Legal Requirements	Generally these accounts are kept to meet management requirements. Now it has become obligatory.	It is required by companies act, Income Tax Act, etc. to keep these accounts.

- Please zoom and read.

Codification:

- Codification means collecting similar overhead cost items under one heading.
- Each item of overhead is properly analysed and written under its head.
- A code number is allotted to it which is known as standing order number.
- It may consist number or letter or a combination of both.
- This also helps in adopting mechanized system of accounting.

References

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