

# COST ACCOUNTING- ITS INTRODUCTION

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# CONTENTS

- INTRODUCTION
- MEANING & DEFINITION
- FEATURES OF COST ACCOUNTING
- SCOPE, OBJECTIVES
- RELATIONSHIP BETWEEN COST AND FINANCIAL ACCOUNTING
- MERITS & DEMERITS OF COST ACCOUNTING

# INTRODUCTION

- Accounting plays an important role in the efficient and successful running of any business. It is called as language of business. It has three main branches:
- Financial accounting provide information to external parties
  - Investors
  - Creditors
  - Regulators
- Management accounting provide information to internal users
  - Managers
- Cost accounting provide information to both internal and external users
  - Product cost information



# COST ACCOUNTING

- Cost Accounting is the art or process of recording , analysing, and classifying of expenditure for the purpose of product costing or service costing, ascertainment of profitability, operational planning and cost control. It is a forward looking approach concerned with classifying of expenditure with object of ascertaining the total and per unit cost of a product and service.

# Accounting for determination and control of costs

**COST ACCOUNTING:** The Institute of Cost and Management Accountant, England (ICMA) has defined Cost Accounting as – “the process of accounting for the costs from the point at which expenditure incurred, to the establishment of its ultimate relationship with cost centers and cost units. In its widest sense, it embraces the preparation of statistical data, the application of cost control methods and the ascertainment of the profitability of activities carried out or planned”.

*Cost Accounting = Costing + Cost Reporting + Cost Control.*

# Features of Cost Accounting

- Special branch of accountancy dealing with ascertainment of cost of product and service.
- It is both a science as well as art.
- It follows the same double entry system as in financial accounting.
- It provides data for cost ascertainment, cost control, forward planning and decision making.



# SCOPE OF COST ACCOUNTING

**COSTING**

**COST  
ACCOUNTING**

**COST  
CONTROL**


**BUDGETARY  
CONTROL**

**COST AUDIT**

# OBJECTIVES OF COST ACCOUNTING

- Ascertainment of costs
- Estimation of costs
- Cost control
- Cost reduction
- Determining selling price
- Facilitating preparation of financial and other statement
- Providing basis for operating policy



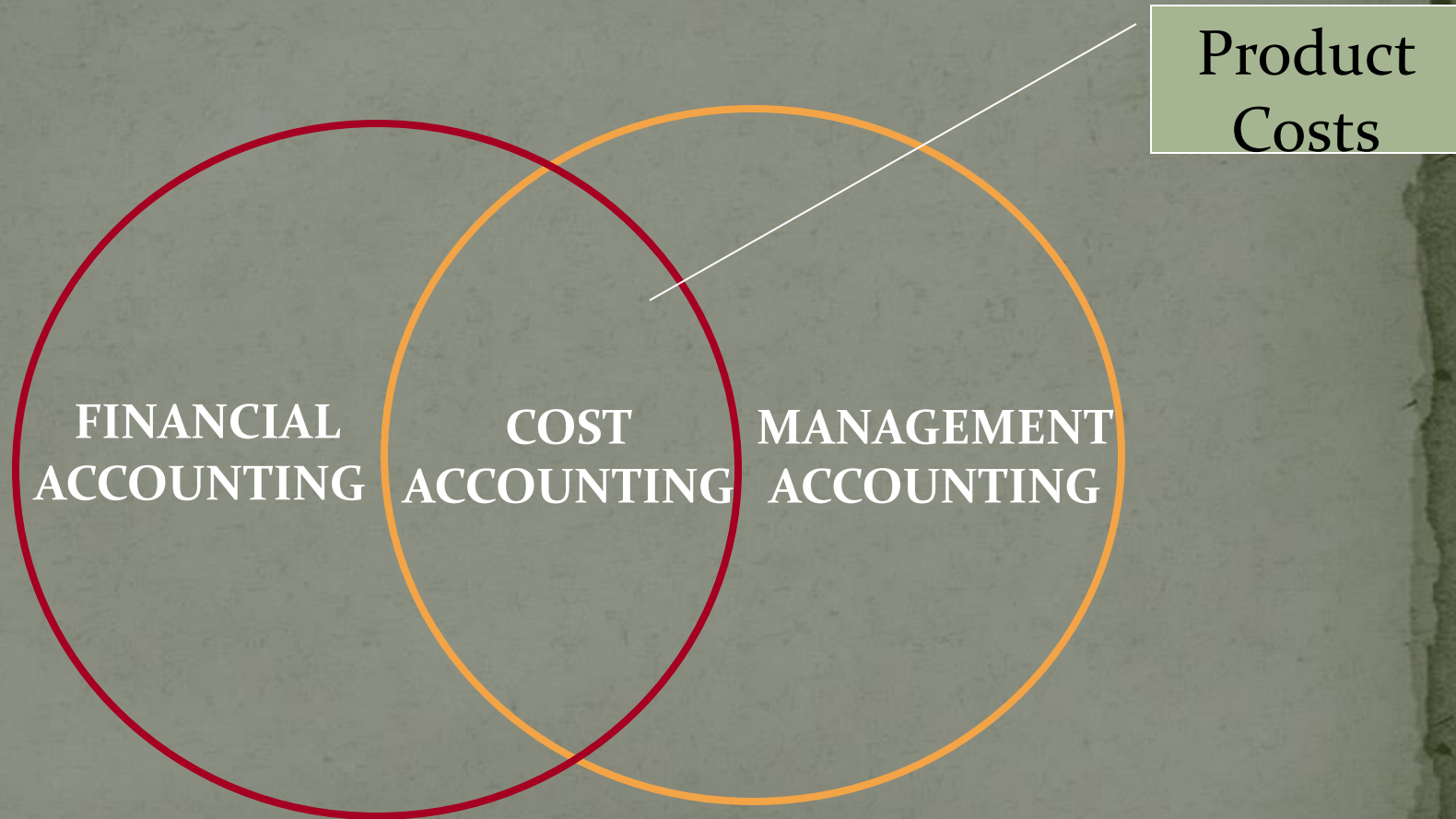


COSTING means ascertaining actual cost

ESTIMATING means ascertaining in advance probable cost of manufacturing

PRICING means fixing the selling price of an article.

# Relationship of Financial, Management, and Cost Accounting



# PRODUCT COST INFORMATION

- **External parties**—Stockholders, creditors, and regulators
  - For investment and credit decisions
  - Complies with GAAP
  - Enterprise focus
- **Internal parties**
  - Planning, controlling, and decision making
  - Evaluating performance
  - Includes upstream and downstream costs
  - Disaggregated



# SIMILARITIES BETWEEN COST AND FINANCIAL ACCOUNTING

BOTH

- Are maintained on basis of double entry system.
- Recording of transactions is made on basis of common vouchers, invoices and documents.

BOTH

- Disclose profit or loss of the business.
- Involve process of matching the cost and revenue

BOTH

- Record direct and indirect cost.
- Compare ,Reconcile the results, Assist the management in taking managerial decisions.

# DIFFERENCES BETWEEN COST AND FINANCIAL ACCOUNTS

BASIS	FINANCIAL ACCOUNTING	COST ACCOUNTING
NATURE	COMPREHENSIVE IN NATURE.	DEALS ONLY WITH TRANSACTIONS RELATING TO MANUFACTURING AND SALE OF PRODUCTS & SERVICES.
SCOPE	CONCERNED WITH ALL ITEMS OF EXPENSES, LOSSES, INCOME & GAINS.	IT IS CONCERNED WITH ONLY THOSE ITEMS OF EXPENSES WHICH ENTER INTO COST OF PRODUCTION.
ANALYSIS OF EXPENDITURE	NO ANALYSIS OF EXPENDITURE ACCORDING TO ELEMENTS, FUNCTIONS, DEPARTMENTS OR PRODUCTS.	PROPER ANALYSIS OF EXPENDITURE ACCORDING TO ELEMENTS, FUNCTIONS, DEPARTMENTS OR PRODUCTS IS DONE.
PROFITABILITY	Disclose overall profitability of business.	Disclosure of profit is made product wise, job wise, department wise .

LEGAL COMPULSION	COMPULSORY	NOT COMPULSORY
CONTROL OVER COST	PROVIDE NO MEANS TO EXERCISE CONTROL OVER COST.	IT HAS VARIOUS TECHNIQUES LIKE STANDARD COSTING, BUDGETARY CONTROL ETC. FOR CONTROLLING COST.
FIXATION OF SELLING & TENDER PRICE	HAVE NO SUCH INFORMATION FOR FIXATION OF SELLING & TENDER PRICE.	IT PROVIDE DETAILED INFORMATION AT DIFFERENT LEVELS OF PRODUCTION WHICH FORM BASIS FOR FIXATION OF PRICE.
INFORMATION REGARDING WASTAGE	DO NOT PROVIDE INFORMATION RELATING TO WASTAGES OF MATERIAL, MAN HOURS AND MACHINE HOURS.	IT CONTAINS FULL INFORMATION RELATING TO ALL TYPES OF WASTAGE INCURRED DURING PRODUCTION.



# ADVANTAGES OF COST ACCOUNTING

- Ascertainment of Cost
- Disclosure of Profitable and Unprofitable activities
- Provide information for calculation of selling and tender price
- Comparison of cost
- Control of cost
- Check on accuracy of financial accounts
- Helpful in planning and decision making
- Correct valuation of inventories
- Use of standards for controlling cost
- Overall increase in profits which is beneficial for labour, investors

# LIMITATIONS OF COST ACCOUNTING

- The system is more complex, expensive , not suitable for small scale enterprises.
- Lack of accuracy
- Lacks social accounting
- Duplication of work
- Need preparation of frequent reconciliation to verify accuracy
- Use of secondary data
- Lack of cooperation of employees
- Based on estimation and previous data
- Not useful for determining tax implications.

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