



SRI AKILANDESWARI WOMEN'S COLLEGE, WANDIWASH

COST ACCOUNTING-I

Class : III UG Commerce

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MEANING

"Cost is the amount of resource given up in exchange for some goods and services. The resource given up are money and money's equivalent expressed in monetary units

"**Cost accounting** is concerned with recording, classifying and summarizing cost for determination of cost of products or services, planning, controlling and reducing such costs and furnishing of information to management for decision making".



COST ACCOUNTING IN INDIAN CONTEXT

Increased awareness of cost consciousness by India industrialists with a view to ascertain costs more accurately for each product or job.

Growing competition among manufacturers led to fixation of prices at a lower level so as to attract more customers.

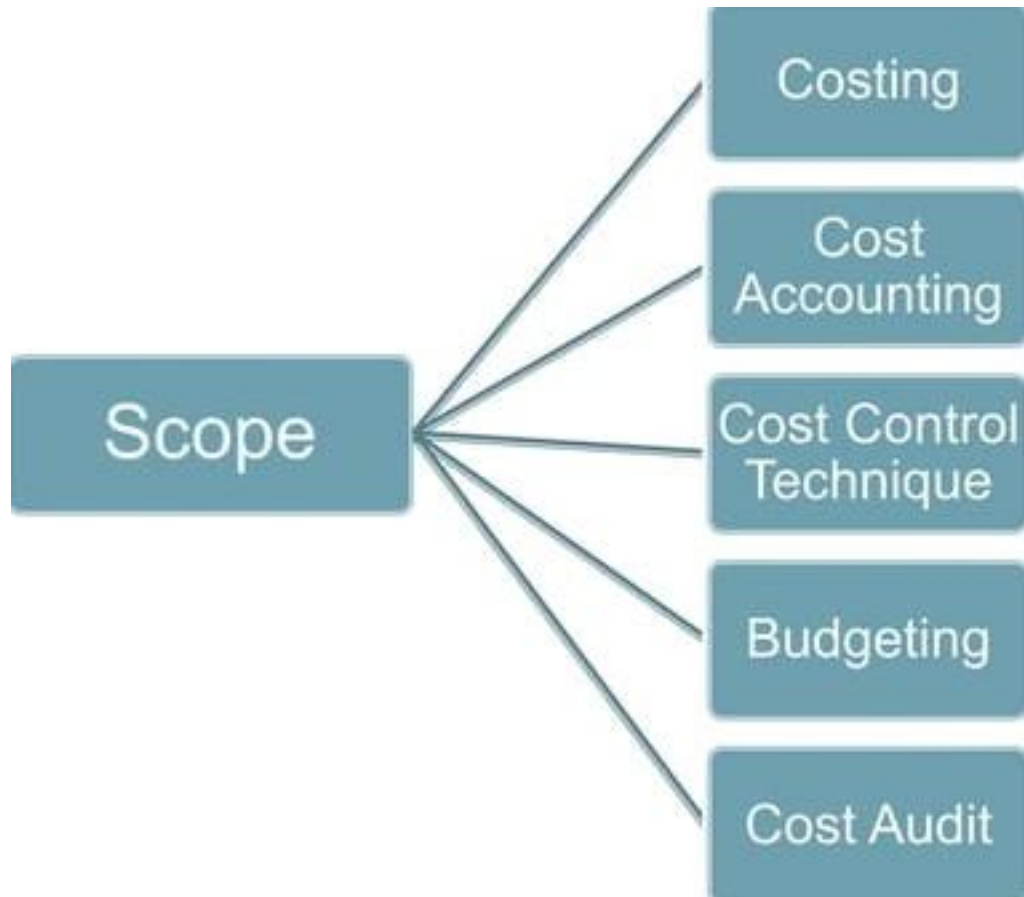
Economic policy of government which laid emphasis on planned economy with a view to achieve the targets led to cost reduction programmes by Indian industrialists.

Increased government control over pricing led the Indian manufacturers to give utmost importance to the installation of cost account.

DEFINITION

"Cost accountancy" as the application of costing and cost accounting principles, method and techniques to the science, art and practice of cost control and the ascertainment of profitability.

SCOPE OF COST ACCOUNTANCY



SCOPE OF COST ACCOUNTANCY

Costing: the technique and process of ascertaining the cost.'

Cost accounting: 'that branch of accounting dealing with the classification, recording, allocation, summarisation and reporting of current and prospective costs.'

Cost control techniques: "the guidance and regulation by executive action of operating an undertaking.'



Budgeting: 'an overall blue print of a comprehensive plan of operations and actions expressed in financial terms.'

Cost audit: "the verification of the correctness of cost accounts and of the adherence to the cost accounting plan.'

NATURE OF COST ACCOUNTING

Cost accounting is a branch of knowledge

Cost accounting is a science

Cost accounting is an art

Cost accounting is a profession

RELATIONSHIP BETWEEN FINANCIAL ACCOUNTING AND COST ACCOUNTING

Points of similarities:

The fundamental principles of double entry is applicable in both the system of accounts.

The invoice and voucher constitute the common basis for recording transactions under both the systems of accounts.

The result of business are revealed by both the system of accounts.

The causes for losses and wastage of a business are provided by both these



POINTS OF DISSIMILARITIES:

Financial Accounts

- Its purpose is external reporting mainly to owners, creditors, government, etc.
- Fail to guide the formulation of pricing policy.
- Provide financial information once a year.
- Not sufficient to evaluate the efficiency of the business.

Cost Accounts

Its purpose is internal reporting, i.e., to the management of every business.

Provide adequate data for formulating pricing

○***

- Furnishes cost data at frequent interval
- Help in evaluating the efficiency of business.



COST ACCOUNTING VS. MANAGEMENT ACCOUNTING

Cost Accounting

- Start from fourteenth century.
- Objective- to ascertain and control cost.
Narrow scope.
Needs of both internal and external parties.
- Deals only with monetary transactions.

Management accounting

- Start from middle 20th century.
- ” Objective- provide useful information to management for decision making.
Wide scope.
Needs of Only internal management.
- Deals with both monetary and non-monetary transaction.



PURPOSES OR OBJECTS OF COST ACCOUNTS

Ascertainment of cost

Cost control

Determination of selling price

Frequent preparation of account and other reports

◀• To provide a basis for operating policy

FUNCTION OF COST ACCOUNTANT

Function

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graph TD; A[Function] --- B(Traditional Function); A --- C(Modern Function);
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Traditional
Function

Modern
Function



ESSENTIALS OF COST ACCOUNTING

Accuracy

Simplicity

Elasticity

Economy

Comparability

Promptness

Periodical preparation of accounts

Reconciliation with financial accounts

Uniformity

Equity

ADVANTAGE OF COST ACCOUNTING

Benefits to the Management

Benefits to the Employees

Benefits to Creditors

Benefits to the Government

Benefits to Consumers/Public



LIMITATIONS OF COST ACCOUNTING

It is expensive

The system is more complex

Inapplicability of same costing method and technique

Not suitable for small scale units

Lack of accuracy

It lacks social accounting

ROLE OF COST IN COST ACCOUNTING

It helps in choosing from among various alternative course of action.

It helps in pricing decisions

It helps in matter relating to replacement of capital equipment by a new one.

- It is useful in deciding the acquisition of fixed assets.

It helps in deciding whether an assets to be bought or hired.

COST UNIT AND COST CENTRE

“cost unit is a quantitative unit of product or service in relation to which costs are ascertained '.

“cost centre is a location, person or item of equipment (or group of these) in respect of which cost may be ascertained and related to cost units.'

TYPES OF COST CENTRE

Personal and impersonal cost centre

Operation and process cost centre

Production and service cost centre

COST TECHNIQUES

Absorption costing

Marginal costing

Historical costing

Standard costing

Differential costing

Uniform costing

COSTING SYSTEM

Historical cost system

Estimated cost system

Standard cost system

COSTING METHODS

Methods

specific' order costing

job costing
batch costing
contract costing
cost plus costing

operation costing

output costing
process costing
service costing
composite costing

COST CLASSIFICATION

Need for cost classification:-

Ascertainment of profits periodically

In budgeting and planning process

Controlling cost

Pricing policy

Current application of plans and policies

CLASSIFICATION OF COST

On the basis of element of cost:-

Material cost

Labour cost

Direct expenses

◇ overheads

On the basis of function:-

s Production cost

c Administration cost

Selling cost

Distribution cost

Finance cost

Research and Development cost

On the basis of controllability:

Variable cost

Fixed cost

Semi-variable cost

On the basis of normally:

Normal cost

Abnormal cost

On the basis of identify ability:

Direct cost

Indirect cost

On the basis of investment:

◀• Capital cost

Revenue cost

On the basis of time:

Historical cost

Predetermine cost

On the basis of association with the product:

Product cost

Period cost

On the basis of decision-making:

Sunk cost

r> Out of pocket cost

Opportunity cost

Imputed cost

Marginal cost

Replacement cost

Avoidable and unavoidable cost

Differential cost

Relevant and irrelevant cost

Conversion cost



COMPONENT OF TOTAL COST

Prime cost:

Prime cost = direct material cost + direct labour cost + direct expenses

Factory cost or Work cost:

Factory cost = prime cost + factory overhead

Office cost or Cost of production:

Office cost = factory cost + office and administrative overhead

Total cost or cost of sales:

Total cost or cost of sales = office cost + selling overhead



THANK YOU

