# INTRODUCTION TO COST ACCOUNTING

[Asst. Prof Mitalee Kumar, Durga College, Raipur (C.G)]

# INTRODUCTION TO COST ACCOUNTING

**Cost Accounting**:

Cost Accounting may be defined as "Accounting for costs classification and analysis of expenditure as will enable the total cost of any particular unit of production to be ascertained with reasonable degree of accuracy and at the same time to disclose exactly how such total cost is constituted" .Thus Cost Accounting is classifying, recording an appropriate allocation of expenditure for the determination of the costs of products or services, and for the presentation of suitably arranged data for the purpose of control and guidance of management.

Cost Accounting can be explained as follows-

Cost Accounting is the process of accounting for cost which begins with recording of income and expenditure and ends with the preparation of statistical data,

It is the formal mechanism by means of which cost of products or services are ascertained and controlled.

Cost Accounting provides analysis and classification of expenditure as will enable the total cost of any particular unit of product/service to be ascertained with reasonable degree of accuracy and at the same time to disclose exactly how such total cost is constituted. For example it is not sufficient to know that the cost of one pen is 25/- but the management is also interested to know the cost of material used, the amount of labour and other expenses incurred so as to control and reduce its cost.

It establishes budgets and standard costs and actual cost of operations, processes, departments or products and the analysis of variances, profitability and social use of funds

Thus Cost Accounting is a quantitative method that collects, classifies, summarises and interprets information for product costing, operation planning and control and decision making.

**Objectives of Cost Accounting**

The following are the main objectives of Cost Accounting

(a) To ascertain the Costs under different situations using different techniques and systems of costing

(b) To determine the selling prices under different circumstances

(c) To determine and control efficiency by setting standards for Materials, Labour and Overheads

(d) To determine the value of closing inventory for preparing financial statements of the concem

(e) To provide a basis for operating policies which may be determination of Cost Volume relationship.

ADVANTAGES OF COST ACCOUNTING;

The Cost Accounting System has the following advantages-

- A cost system reveals unprofitable activities, losses or inefficiencies occurring in any form such as

a. Wastage of man power, idle time and lost time.
b. Wastage of material in the form of spoilage, excessive scrap etc.
c. Wastage of resources, e.g. inadequate utilization of plant, machinery and other facilities.

- Cost Accounting locates the exact causes for decrease or increase in the profit or loss.

- Cost Accounts furnish suitable data and information to the management to serve as guides in making decisions involving financial considerations.

- Cost Accounting is useful for price fixation purposes. Although sale price is generally related more to economic conditions prevailing in the market than to cost, the latter serves as a guide to test the adequacy of selling prices.

- With the application of Standard Costing and Budgetary Control methods, the optimum level of efficiency is set.

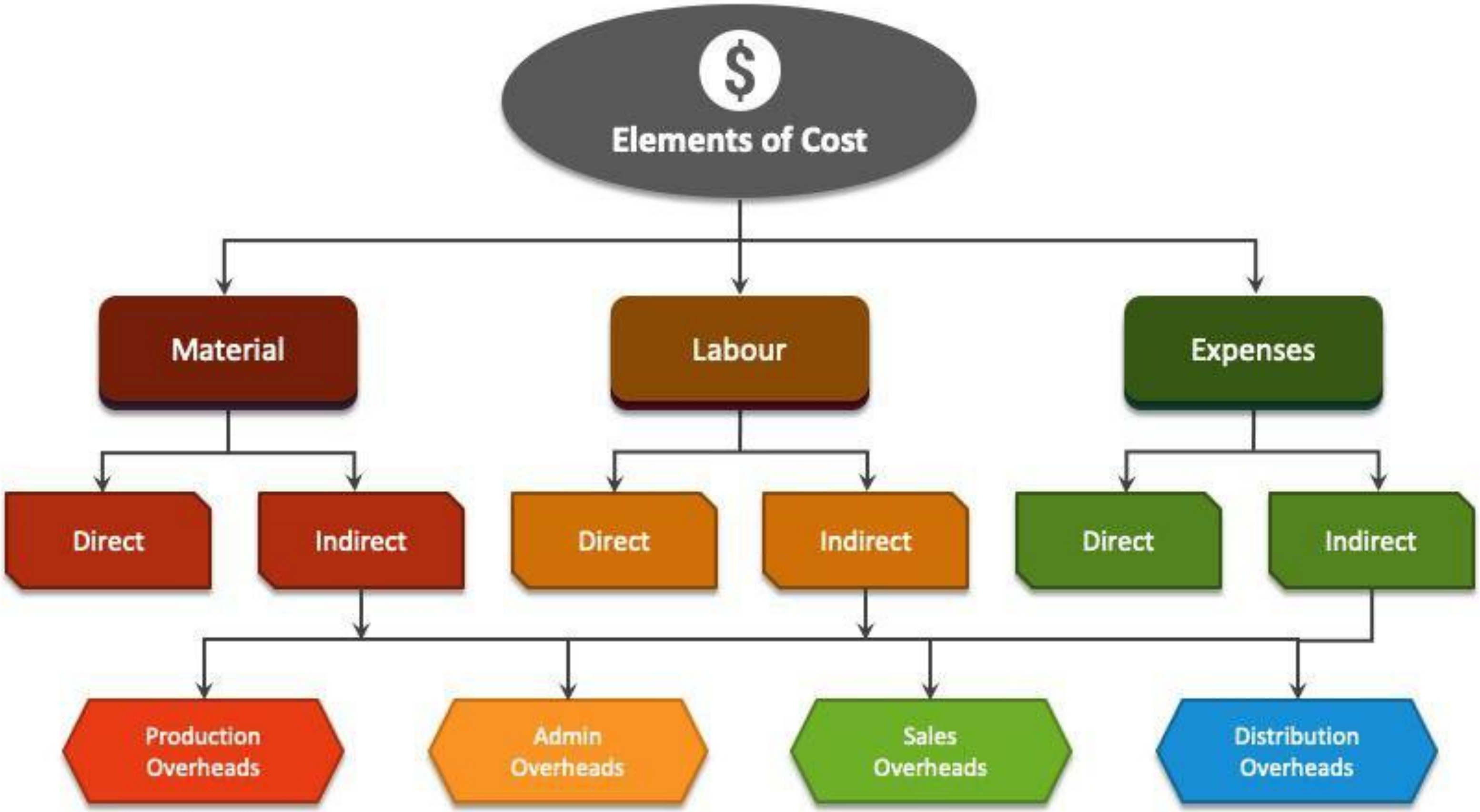
- Cost comparison helps in cost control. Comparison may be period to period, of the figures in respect of the same unit or factory or of several units in an industry by employing Uniform Costs and inter-Firm Comparison methods. Comparison may be made in respect of cost of jobs. process or cost centres.

LIMITATIONS OF COST ACCOUNTING

The Cost Accounting System Has Following Limitations;

- Lack Of Fixed Accounting Principles
- It Is A Costly System
- It Is Complex Accounting System
- Not Suitable For Small Companies
- It Ignores Financial Items
- It May Lack Accuracy
- Not Helpful In Decision Making
- It Depends On Financial Accounting

# ELEMENTS OF COST



## COST ACCOUNTING TECHNIQUES;

### MARGINAL COSTING;

Marginal costing is a cost accounting method where only variable costs are assigned to products, while fixed costs are expensed as period costs. It focuses on the change in total cost from producing one additional unit (the marginal cost) to calculate the contribution margin (sales minus variable costs) for decision-making, helping managers with pricing, product mix, and break-even analysis.

### STANDARD COSTING;

Standard costing is a cost accounting technique where predetermined or standard costs for materials, labour, and overhead are established and then compared to actual costs incurred during production. This comparison helps identify cost variances, allowing management to investigate the causes of deviations, improve efficiency, control costs, and make informed budgeting and pricing decisions.

### BUDGETARY COSTING

budgetary costing involves setting financial targets in a budget for various aspects of a business, such as production, sales, and expenses, and then comparing the actual costs incurred against these predetermined budgeted amounts to monitor financial performance and control costs. This comparison allows management to identify variances, understand where costs have exceeded or fallen short of expectations, and take corrective actions to ensure the company achieves its financial goals and maintains profitability.

# THANKYOU!