

Cost Accounting

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Introduction :

It is a process via which we determine the costs of goods and services. It involves the recording, classification, allocation of various expenditures, and creating financial statements. This data is generally used in financial accounting.

This helps us calculate the costs of the various goods. It also involves a suitable presentation of this data for the purposes of cost control and guidance to the management.

It deals with the cost of every unit, job, process, order, service, etc, whichever is applicable and includes the cost of production, cost of selling and cost of distribution.

COST: Cost refers to total amount of expenditure to be incurred to produce a product or render a service or to complete a job.

COSTING : Costing' is a process for determining the cost. It may be called a technique for ascertaining the cost of production of any product or service in the business organization.

COST ACCOUNTING :Cost Accounting is basically the next step to costing. Cost accounting involves analyzing relevant costing data, interpret it and present various management problems to management.

COST ACCOUNTANCY: This term is over and above costing and cost accounting. It envisages application of costing and cost accounting in a business setup. Cost Accountancy facilitates management with cost control initiatives, ascertainment of profitability and informed decision making. It also includes determination of selling price for the products, division and unit wise profitability.

Importance and Objectives of Cost Accounting

- Classification of Cost
- Cost Control
- Price Determination
- Fixing of Standards

LIMITATIONS

1. Lack of uniformity:

Cost accounting lacks a uniform procedure. It is possible that two equally competent cost accountants may arrive at different results from the same information. Keeping this limitation in view, all cost accounting results can be as mere estimates.

2. Conceptual diversity:

There are a large number of conventions and flexible factors such as classification of cost into its elements, issue materials on average or standards price, apportionment of overhead expenses, arbitrary allocation of joint costs, division of overhead into fixed and various and variable costs, division of cost into normal and abnormal and controllable and non-controllable and adoption of marginal and standard costs due to which it becomes difficult to have exact costs. In which a contacts, the reliable of cost accounting might be low.

3. Costly:

There are many formalities which are to be observed by a small and medium size concerned due to which the establishment and running costs are so much that it becomes difficult for their concerned to afford us cost. Thus it can be used only by big concerned.

4. Ignorance of futuristic situation:

The contribution of cost accounting for heading futures situation has not been much for example, it is has not evolved so far any tool for heading inflation situation.

5. Lack of double entry systems:

Under cost accounting. A double entry system is not adopted that does not enable to checks the arithmetic's accuracy of the transaction and locate the errors.

6. Developing stage:

Cost accounting is to development stage since its principle concepts and conversions are not fully developed.

DIFFERENCE BETWEEN FINANCIAL ACCOUNTING AND COST ACCOUNTING

After studying financial accounting and cost accounting, you can understand the difference between these two accounting systems. Therefore, difference between financial accounting and cost accounting is as follows:

Table 27.1 Differences between financial accounting and cost accounting

Basis	Financial Accounting	Cost accounting
(i) Objective	It provides information about the financial performance and financial position of the business.	It provides information of ascertainment of cost to control cost and for decision making about the cost.
(ii) Nature	It classifies records, presents and interprets transactions in terms of money.	It classifies, records, presents, and interprets in a significant manner the material, labour and overheads cost.
(iii) Recording of data	It records Historical data.	It also records and presents the estimated/budgeted data. It makes use of both the historical costs and pre-determined costs..
(iv) Users of information	The users of financial accounting statements are shareholders, creditors, financial analysts and government and its agencies, etc.	The cost accounting information is used by internal management at different levels.
(v) Analysis of costs and profits	It shows the profit/ loss of the organisation.	It provides the details of cost and profit of each product, process, job, contracts, etc.
(vi) Time period	Financial Statements are prepared for a definite period, usually a year.	Its reports and statements are prepared as and when required.
(vii) Presentation of information	A set format is used for presenting financial information.	There are not any set formats for presenting cost information.

THANK YOU