INTRODUCTION TO COST ACCOUNTING

Meaning and definition.

- **Costing** is “the technique and process of ascertaining cost”
- **Cost accounting** is the branch of accounting dealing with the classification, recording, allocation, summarizing and reporting of current and prospective costs.

Features:

- It is a process of accounting for costs
- It records income and expenditure relating to production of goods and services.
- It is concerned with cost ascertainment and cost control.
- It provides data for preparation of estimates and quotations.
- It establishes budgets and standards so that actual cost may be compared to find out variances.

Cost accountancy is the application of costing and cost accounting principles, methods and techniques to the art, science and practice of cost control and the ascertainment of profitability. It includes the presentation of information derived there from for the purposes of managerial decision making.

Objectives of cost accounting:

- Ascertainment of cost
- Cost control and cost reduction
- Determination of selling price
- Ascertainment of profit of each activity
- Assist management in decision making

Advantages of cost accounting:

To the management:

- Profitable and unprofitable activities are disclosed. Steps can be taken to eliminate or reduce activities from which little or no benefit is obtained,
- It helps to measure efficiency and to maintain and improve it.
- It provides information required for the preparation of quotations and tenders.
- It provides data for comparing costs in different periods for different volumes of output in different departments
- The exact cost of increase or decrease in profit or loss is revealed
- It facilitates inter firm comparison
- It prevents fraud and misappropriation of money and materials.
- It provides cost data for fixation of selling price of products or services,
- It helps in controlling cost through standard costing and budgetary control.
- It helps to introduce cost reduction programs.

To the workers

- it disclosures the relative efficiencies of different workers and thereby facilitates the introduction of suitable plants of wage payment to reward efficiency.
- It ensures security of job

To creditors and investors

- it helps to judge the financial strength and credit worthiness of the business.

To the government

- it facilitates the assessment of excise duty and income tax and formulation of policies regarding industries, export, import and taxation.
- It helps in the preparation of national plants for economic development.

To public enterprises

- It ensures effective control through proper analysis of the operations of the enterprise.
- It provides financial control over expenditure and avoids conflict of authority.

Limitations of cost accounting

- The cost of installation of cost system is very high.so it cannot be used by small concerns.
- Cost varies with purposes.
- There is no uniform system of cost accounting applicable to industries
- It is not an exact science.

Distinction between Financial Accounting and Cost Accounting

FINANCILA ACCOUNTING	COST ACCOUNTING
It provides information about the profit or loss and financial position of the business to owners and outside parties.	It provides cost information to management for planning control and decision making.
The accounts are maintained to meet the requirements of companies act.	The accounts are maintained to meet the requirements of the management.
The transactions are recorded according to the nature of expenses.	The transactions are recorded according to the purpose for which the cost are incurred.
It deals with actual facts and figures	It deals partly with facts and figures and partly with estimates.
Only monetary transactions are recorded	Monetary and non-monetary transactions are recorded
Stock is valued and cost price or market price whichever is lower.	Stock is valued at cost only
It reveals the profit and loss of the business as a whole	it shows the cost and profit of each job, process or product