

B.Com (H), Sem-4 [V.U]

Chapter 1: Introduction

Note: 1

Q1. What is Cost Accounting?

Ans: Cost accounting is a formal system of accounting for costs in the books of account by means of which costs of products and services are ascertained and controlled.

In other words, cost accounting is such a system of accounting in which accounts of expenses are prepared with the objective of knowing and controlling the cost. As a matter of fact, determination, analysis and control of cost is possible only through the informations provided by cost accounting.

Q2. What are the Objectives of Cost Accounting?

The main objectives of cost accounting are as follows:

1. Ascertainment of cost: This is the primary objective of cost accounting. In other words, the basic objective of cost accounting is to ascertain the cost of products and services. For cost ascertainment different techniques and systems of costing are used in different industries.

2. Control and reduction of cost: Cost accounting aims at improving efficiency by controlling and reducing cost. This objective is becoming increasingly important because of growing competition.

3. Guide to business policy: Cost accounting aims at serving the needs of management in conducting the business with utmost efficiency. Cost data provide guidelines for various managerial decisions like make or buy, selling below cost, utilization of idle plant capacity, introduction of a new product, etc.

4. **Determination of selling price:** Cost accounting provides cost information on the basis of which selling prices of products or services may be fixed. In periods of depression, cost accounting guides in deciding the extent to which the selling prices may be reduced to meet the situation.

5. **Measuring and improving performance:** Cost accounting measures efficiency by classifying and analyzing cost data and then suggests various steps in improving performance so that profitability is increased.

In order to realize these objectives, the data provided by cost accounting may have to be reclassified, re-organized and supplemented by other relevant business data from outside the formal cost accounting system.

Q3. Discuss the advantages of Cost Accounting?

Cost accounting system has been fully successful in achieving its objectives. Its importance is, therefore, continuously increasing. It is advantageous not only to the manufacturers or producers but to others also. In brief, the advantages of cost accounting may be summarized under the following heads:

Advantages to Producers and Managers

The advantages of maintaining cost accounts to the producers and managers are as follows:

(a) Best utilization of Material, Labour and Plant:

Detailed accounts are prepared in cost accounts for material, labour and plant. Thus, the theft of material and the misutilization of labour can be easily checked and the best utilization of the plant can be made.

(b) Knowledge of Profitable and Non-profitable Activities:

In cost accounting, separate cost analysis of each job, process, department, product or service is done. It helps in knowing their separate profit or loss. Its advantage is that non-profitable activities may be suspended and profitable ones may be continued or efforts may be made to improve the non-profitable activities.

(c) Analytical and Comparative Study of Production Cost:

In cost accounting, the cost per unit is calculated by classifying the total cost of production in various costs such as direct and indirect cost, fixed and variable cost, works, office and distribution cost, etc. This analysis reveals the changes in cost and their causes in two periods. It helps in checking the increasing expenses and reducing profits. It also develops the capacity of the organization to face competition.

(d) Helpful in Fixing Sale and Tender Prices:

The cost of production of a product at various stages may be easily known with the help of cost accounts. Thus, the sale price, after adding the reasonable profit in the cost may be easily fixed. The cost accounts are also helpful in quoting the tender price. In cost accounting, the sale price and tender price are fixed keeping in view the cost in the last period and the current trends.

(e) Helpful in Controlling the Cost:

Accounts provide useful data to the management for planning, budgeting and controlling cost. It helps in controlling the cost with the application of standard costing and budgetary control. Cost comparison also helps in cost control. Thus, cost accounts are helpful in controlling the cost.

(f) Helps in Decision Making:

It supplies suitable cost data and other related information for managerial decision-making, such as introduction of a new product line, determining export price of products, make or buy a component, etc.

(g) Helps in Cost Reduction:

It helps in the introduction of a cost reduction programme and finding out new and improved ways to reduce costs.

(h) Prevents Frauds and Manipulation:

Cost audit system, which is a part of cost accountancy, helps in preventing manipulation and frauds and thus reliable cost data can be furnished to management and others.

Advantages to Workers / Employees

Workers are benefited by introduction of incentive plans of wage payment which is an integral part of a cost system. This results not only in higher productivity but also higher earnings for workers.

Advantages to Consumers / Society

An efficient cost system is bound to lower the cost of production. The benefits of cost reduction and cost control accrue to the public at large in the form of lower prices of products and services.

Advantages to Government and Others

The detailed and analytical informations regarding various industries, provided by the cost accounts, depict their actual position. This helps the government in formulating important policies regarding price control, trade unions related matters, etc., for use in problems like price fixing, wage level fixation, settlement of industrial disputes, etc.