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INTRODUCTION

Cost accounting is associated with accounting of cost. It comprises of cost and accounting. Atomic cost signifies the total of all expenditures involved in the process of production. Thus, it includes the cost involved in the production and the cost involved while receiving it. Accounting is a process to collect and maintain financial records of each income and expenditure and make available such information to the concerned officials. Therefore, cost accounting is a practice and process of cost which regulates their productivity or business concern by controlling the cost with the application of accounting norms, processes and rules.

Definition

- According to **W.W. Bigg**, “cost accounting is the provision of such analysis and classification of expenditure as well as enable the total cost of any particular unit or production to be a certain with reasonable degree of accuracy and at the same time to disclose exactly how such total cost is constituted.”

Objectives of Cost Accounting

- Primary objective of cost accounting is to find out cost of a product, process or services.
- It helps in determining selling price.
- Measuring and increasing efficiency.
- Cost accounting helps in cost control.
- Cost management is one of the objectives of cost accounting.

Advantages

- a) A good cost accounting system eliminates waste, delays, losses and inefficiencies by fixing standards for everything.
- b) New and improved methods of production are followed under a cost accounting system. It leads to cost reduction.
- c) Identify the reasons for profit or loss
- d) Cost accounting helps the trade union
- e) Helps to prepare financial accounts

Disadvantages

- a) Only past performances are available in the costing records but the management is taking decision for future.
- b) The cost of previous year is not same in the succeeding year hence, cost data are not highly useful.
- c) Installation of cost accounting system requires the maintenance of a many costing records.
- d) Rigid cost accounting system does not serve all purpose.
- e) Delay in receiving costing information does not result in taking quality decision by the management.

Financial Accounting

Financial accounting is the oldest branch of accounting financial accounting is to a certain profit on during a year an financial position at the end of the year. financial accounting provide overall operational results of the business to the various external groups such as creditors, tax authorities, shareholders etc. Financial accounting emphasis more on the financial transactions.

Limitations

- a) Financial accounting fails to provide data for comparison of costs of different periods, jobs or Department, operations .
- b) Financial accounting does not give any data regarding costs by departments, processes, products units etc.
- c) Lack of control over profit or loss.
- d) Lack of comparative knowledge of cost.

Difference between Cost accounting and financial accounting

- 1) **Purpose:** Financial accounting is to determine profit for the accounting period and how to see the financial position of the concern at the end of accounting period. **Cost accounting** is to provide detail cost information for costs or ascer, cost control and decision making.
- 2) **Interested groups: Financial accounting** Provide information to external groups i.e. shareholders, creditors, investors, etc. **Cost Accounting** Provides information to management.
- 3) **Necessity:** Maintenance of **financial accounting** is necessary to meet the requirements of the income tax, Companies Act and other law of the country. Maintenance of **cost account** is voluntary excepting some industries

- 4) **Reporting: Financial accounting** observes the accounting period which is normally a year. **Cost accounting** Makes day-to-day reporting like a movie picture. it aims at continuous reporting at short intervals say weekly.
- 5) **Emphasis: Financial Accounting** emphasis is on accuracy. **Cost Accounting** emphasis is on timelines.
- 6) **Nature: Financial Accounting** Is historical in nature and is concerned with historical data. **Cost accounting** is concerned with historical as well as predetermined data.

Management Accounting

Management accounting is concerned with accounting information which is useful to the management in formulating policies and controlling the business operations.

The main **purpose** of management accounting is to provide all the relevant information that may be required by the management to take decisions. It is also concerned with the evaluation of performance of full the management as an institution. Management accounting covers all the arrangement and combination or adjustments of the information from which top management can control the business.

Method of Costing

1. **Job Costing**: It is also called specific order costing. It is adopted by industries where there is no standard product and each job or work order is different from the others. The job is done strictly according to their specifications given by the customers and usually the job takes only a short time for completion. Job costing is used by printing presses, motor repair shops, auto mobile garages, film studios, etc.
2. **Contract costing**: It is also known as terminal costing. Basically, this method is similar to job costing. However, it is used where the job is big and spread over a long period of time the work is done according to the specifications of the customer.
3. **Batch Costing**: It is an extension of job costing. A batch is a group of identical product, all the units in a particular batch are uniform in nature and size. Hence each batch is treated as a cost unit and cost separately. The total cost of batches assortment and it's this divided by the number of units in the best to determine the cost per unit. Batch costing is adopted by manufacturers of biscuits full, ready made garments, spare parts medicines, etc.

4. **Process costing:** It is called continuous costing. In certain industries, the raw material passes through different processes before we take the shape of a final product. Process costing is applied to continuous process industries such as chemicals, textiles, paper, soap couple leather etc.
5. **Operating costing:** This method is followed by industries which render services. To ascertain the cost of such services, composite unit like passengers kilometers and tonekilometers are used for ascertaining cost.
6. **Unit costing:**This method Is also known as single or output costing.It is suitable to industry where production is continuous and units are identical. The objective of this method is to a certain the total cost as well as total the cost for unit. Unit costing is applicable in the case of mines, oil drilling units, cement works, brickworks and unit manufacturing cycles, radios, washing machines, etc.
7. **Operating costing:** This method is used where there is mass production of repetitive nature involving a number of operations. The main purpose of this method is to a certain the cost of each operation.It is-applied in industries such as spare parts, toy making an engineering.
8. **Multiple costing:** It is also known as complete composite costing. It refers to a combination of two or more of the above methods of costing. It is adopted in industry where several parts are produced separately and assembled to a single product.

Short Questions

- 1) Write the objectives of cost accounting?
- 2) Discuss the five methods of cost accounting.

Long Questions

- 1) What is cost accounting? Explain its objects and advantages.

Reference

- **Cost accounting- Dr. B.K. Mehta, SBPD Publishing House**
- **Cost accounting- Dr.R.N. Khandelwal, SBPD Publications**
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Thank you