

# Cost Management Accounting

# Unit -1

## Introduction of cost accounting

# Cost Accounting



Cost Accounting is a business practice in which we record, examine, summarize, and study the company's cost spent on any process, service, product or anything else in the organization. This helps the organization in cost controlling and making strategic planning and decision on improving cost efficiency. Such financial statements and ledgers give the management visibility on their cost information. Management gets the idea where they have to control the cost and where they have to increase more, which helps in creating a vision and future plan.

# Features of Cost Accounting

- It is a sub-field in accounting. It is the process of accounting for costs
- Provides data to management for decision making and budgeting for the future
- It helps to establish certain standard costs and budgets.
- provides costing data that helps in fixing prices of goods and services.
- Is also a great tool to figure out the efficiency of a unit or a process. It can disclose wastage of time and resources.

# OBJECTIVES OF COST ACCOUNTING

➤ The objectives of cost accounting may be classified in two categories namely

- a) Primary objective
- b) Secondary objective

a) Primary objective may be studied under the heads of

- Cost ascertainment
- Cost presentation
- Cost control

# Cost ascertainment

The main objective of costing is cost ascertainment. It implies

- i. Collection of expenses: there are various system of costing like historical costs, estimated costs , standard costs for collection of expenses.
- ii. Measurement of production: there are various methods of costing like process costing , job costing , output costing for measuring the quantity of production.
- iii. Linking the production to expenses : there are various techniques like absorption costing and marginal costing, for linking production with the expenses.

# Cost presentation:

The second object of costing is cost reporting. Appropriate cost information should be sent to right person in right time in proper form. Different printed forms are used for efficient reporting.

# Cost of control:

Another important object of cost control. There are various methods to ensure cost control

## Subsidiary objectives:

- ❖ To assist the management in determining the selling price.
- ❖ To help the management to prevent the wastage in material, men and machinery.
- ❖ To help the management to carry on production with utmost efficiency.
- ❖ To facilitate the presentation of financial and other statement very quickly.



# Function of cost accounting

To understand the entire cost structure of a firm, cost accounting is crucial. It ascertains the costs of various products, processes etc.

So we can compare them to the sales and arrive at the true profitability of the firm. This is one of the main objectives or functions of cost accounting. To achieve this the actual functions of cost accounting change daily. Let us take a look,

- Ascertain the cost per unit of every product that the company manufactures
- To identify any wastages whether in material, expense, time, tools and spares etc. Also, suggest ways to minimize this wastage

- Also, provide data that helps in the process of price fixing
- Calculate with accuracy the profitability of each of the company's products. And figure out ways to maximize these profits
- Also, perform the functions of cost control for materials, labor, and other miscellaneous expenses
- Present data to the management that allows them to interpret the data and make business decisions
- Help management with incentive plans that are based on efficiency
- Also, help the management with the preparation of budgets and setting up budgetary controls

THANK YOU