Unit:10

Concept of Cost Accounting

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1. What do you mean by Financial Accounting?

Ans: Financial accounting is the branch of accounting that makes it easier to file financial statements by maintaining systematic records of financial transactions or economic activities that occur in the business.

2. What do you mean by Cost Accounting?

Ans: Cost accounting deals with the accumulation, classification, analysis, recording, allocation, summarization, interpretation, reporting and control of current and future prospective of costs.

3. Explain the limitation of financial Accounting.

Ans: Financial accounting is the branch of accounting that makes it easier to file financial statements by maintaining systematic records of financial transactions or economic activities that occur in the business.

The limitation of financial accounting are as follows:-

i) Based on historical information:

Financial accounting only includes historical details based on transactions that have been registered. It may not be appropriate for indicating future plans.

ii) Fails to help in planning and decision making:

fails to provide appropriate data to management for making different business decisions and future plans, such as replacing labour with machines, making or buying, choosing the most efficient product mix, operating or shutting down and so on.

iii) Difficulty in price determination:

Financial accounting fails to provide managers with the details recquired to set the price of a good or service. Since the costs are not distributed individually according to manufacturing goods services, or work order

iv) No use of standard:

Financial accounting does not provide ~~ent~~ any standard costing to measure efficiency in the use of materials, labour, and expenses, making it difficult to measure performance efficiency because no standards have been established in financial accounting.

v) No assistance in control on cost:

While cash control is given, Financial Accounting lacks a proper system for managing various cost elements such as ~~p~~ supplies, labour, and indirect costs or overheads.

4. Explain the objectives of Cost Accounting?

Ans: Cost accounting deals with the accumulation, classification, analysis, recording, allocation, summarization, interpretation, reporting and control of current and future prospective of costs.

The objectives of Cost accounting are as follows:-

i) Estimation of cost of product or service:

Cost estimation for future performance is an important objective of cost accounting. Cost estimation is concerned with pre-determination of cost of product and service before actual operation takes place.

ii) Determine Selling Price:

Another part of objective of cost accounting is to determine selling price of product or service. Cost accounting facilities to accumulate all elements of cost like materials, labour, and overheads to produce a product or to devote service.

iii) Assist in managerial decisions:

One of the important parts of managerial functions is to take right decision at the right time. Cost accounting techniques like cost-volume-profit analysis, capital budgeting, standard costing, etc. are crucial to take important decisions.

ii) Helps to control and reduce costs: Cost accounting helps to maintain minimum level of standard in actual cost. It provides useful data ~~on~~ not only about product costs but also about production efficiency. This helps to estimate standard cost of product before involving in actual production activities.

iii) Assist to measure efficiency: Cost accounting ~~hel~~ assists to measure the efficiency of different processes or departments after some time intervals. The provision of measurement of actual performance achieved with standard fixed helps to take corrective among the responsible personnel.

iv) Provides cost information to bid: Cost accounting is advantageous to the management for bidding tenders and quotations. Business organizations involved in manufacturing and developmental works need to file a bid for tender or quotation for supply of materials or to complete works.

v) Helps to establish standard of performance: Cost accounting is the basis of standard costing and budgetary control. It communicates cost information and data to the management which is necessary

iv) Determining the value of stock and income reporting:

One of the objectives of cost accounting is to provide information about cost per unit of output by accumulating all elements of cost like materials, labour, and overheads. Cost accounting helps to determine value of closing stock by gathering manufacturing cost of output.

v) Planning and control of costs:

Cost accounting is an ~~important~~ importing instrument which facilitates to prepare day to day operational as well as long term plans of an enterprise. In general, information provided by a cost accounting system is combined with other data.

5. What are the importance of Cost Accounting?

Ans: Cost accounting deals with the accumulation, classification, analysis, recording, allocation, summarization, interpretation, reporting and control of current and future prospective of cost. The importance of Cost accounting are as follows.

i) Identify profitable and unprofitable operation:

Cost accounting helps to identify profitable and non-profitable projects from economic point of view. It assits to provide information regarding production cost of a product or service by gathering all element of cost like material, labour and overhea to set standard of performance interms of quality and quantity.

6. Explain the limitations of Cost Accounting.

Ans: Cost accounting deals with the accumulation, classification, analysis, recording, allocation, summarization, interpretation, reporting and control of current and future prospective of costs.

The limitations of Cost Accounting are as follows:

i) Lack of uniformity:

The cost accounting is not an exact science and therefore there is lack of uniformity in costing procedures and practices. The cost accountants may compute costs on different basis.

ii) Does not consider price level change situation:

It is matter of fact that cost accounting is source of cost information and the basis of cost estimation. However, it needs money formalities and estimations and does not consider to the ~~inflama~~ inflationary situation of the future prospect.

iii) Costly System:

The development of cost accounting system needs technical personnel, many procedure and other resources ~~requires in~~ to the business. The accumulation of above resources requires investment of extra capital which is possible only to large organization.

iv) Does not match with financial results:

In some extent, cost accounting facilitates to determine actual profit or loss from business operation but it ignores to pure financial transactions. Therefore, the results obtained through cost accounting does not match with profit or loss obtained through financial accounting.

v) Only the basis of cost Control:

Although cost accounting provides data and information to the management to take necessary steps to control cost but it by itself cannot control cost. Cost accountants and other technical authorities of the enterprise must have familiar with products, processes, material, labour, overhead and expenses related with machines.

7. Differentiate between Financial accounting and Cost accounting.

Ans: The differences between financial accounting and cost accounting are as follows:-

	Financial Accounting		Cost Accounting
i)	Financial accounting is to keep record of monetary transactions, provide information of operational results and overall financial position of business.	i)	Cost accounting is the study and analysis of cost needed to produce a product or render a service.
ii)	Financial accounting communicates its financial information to external parties of the firm like investors, creditors, government agencies & taxation authorities.	ii)	Cost accounting communicates its costing information to internal consumption mainly to the various lev of management.
iii)	Financial accounting record the monetary transactions which have taken place in past.	iii)	Cost accounting records be monetary transactions of past and projected costs figure of future.
iv)	Financial accounting is ~~government~~ governed by Companies Act, Income ~~Ta~~ Tax Act, Finance Act and other rules of the country.	iv)	Cost accounting is informa and internal in nature and therefore no acts of the country govern for its preparation.
v)	Financial accounting provides importance to maintain record of financial transactions which are incurred in business operation.	v)	Cost accounting provides emphasis for cost estimation and cost determination of products or ~~ser~~ services.

8. Explain the method of Costing.

Ans: The method of costing are as follows:-

i) Job-order Costing:

Job-order costing method is used to assign direct costs to the specific order, contract, and also to specific batch of production. Each job or order is specific and absorb different operations which need costs both direct and overheads.

ii) Batch Costing:

This costing is used for a batch or group of orders of tiny nature. In manufacturing enterprises where small components of the same kind are ~~manup~~ manufactured in large quantities the batch costing method is used.

iii) Contract Costing:

The contract costing method is used where a job is very huge and takes a long time like one year or more to complete. The work is undertaken in accordance to the special requirement of customers which is ~~one to~~ also large enough in terms of expenditure.

iv) Multiple costing:

It is also known as composite costing. ~~whic~~ where costs of many component units are accumulated. This costing is used by the enterprises where varieties of components are produced at different plants of the same organization.

or different agonization and afterward assemble in a final product.

v) Process Costing:

Process costing is used in industr where a continuous process of production is carried out and the product is uniform. In other words, process costing is used in industries where certain steps to be completed to convert raw materials into finished product.

vi) Single Costing:

It is also known as output costing and is used in enterprise which produces only a single product. The product might also be two or three types in grades but of similar nature. The product should be on mass scale and continuous in process.

vii) Service Costing:

It is also known as operating costing. It is suitable in enterprise which provides service to the customers like transport company, hospitals, ~~electro~~ electricity, telecommunication, hotels, educational institutions, etc.

9. What do you mean by Cost?

Ans: Cost is the amount of expenditure incurred for the payment of items like materials, labour, overheads and capital expenditure.

Q. Explain the cost on the basis of elements.
Ans: Cost is the amount of expenditure incurred for the payment of items like materials, labour, overheads and capital expenditures.
On the basis of elements or nature costs are classified into three types viz. materials, labour and expenses.

i) Materials:
It is fact that minimum part of product cost, near about 50 to 80 percent, is covered by material cost. Therefore, material has been taken as one of significant element of products. Material cost is again sub-divided into two viz. direct material and indirect material.

ii) Labour cost:
The amount paid to workers involved in production process or in subordinate function is labour cost. Labour cost is a must in every organization to incur expenditure in manpower in terms of wages, allowance, provident fun, bonus, commission, gratuity, pension, etc.

iii) Expenses:
All the expenses incurred other than material cost and labour cost are expenses. They are stable in nature. Expenses are also sub-divided into two type's viz. direct expenses and indirect expenses.

11. Explain cost on the basis of Production and Function.

Ans: Cost is the amount of expenditure incurred for the payment of items like materials, labour, overheads and capital expenditure.
The explaination of cost on the basis of production and function are as follows:-

On the Basis of Production and Process
When we study costs by focusing to a production and process, we can get two types of expenses viz. direct cost and indirect cost.

i) Direct Costs:
Direct Costs are those, which can be physically identical and traced to the cost of object because there is a direct casual link between them, Example: cost of paint in the paint department of an automobile assembly plant

ii) Indirect Costs:
Indirect cost cannot be traced to each cost object and they must be allocated in order to be assigned to a product or department. ~~in order to be assigned to a product or dep~~ Example: cost of national advertising for an airline is indirect to a particular flight.

On the Basis of Functions
According to the classification, cost are divided on the basis of the three important functions of a business which are work cost, administration, selling and distribution cost.

i) Work/Factory cost:

In simple sense, all the expenditure incurred in an organization for production process is factory cost. Factory cost may also be sub-classified into two viz: direct cost and indirect cost.

ii) Administrative Cost:

The expenditure incurred for the regular operation for the office is administration cost. It represents those indirect expenses, which relate to the performance of management functions like planning, organizing, directing, and controlling the operation.

iii) Selling and distribution cost:

Such costs in one angle and incurred for the promotion of business operation and in another way they are needed to provide delivery of goods to customers.

Q. Explain the cost on the basis of variability or behaviour.

Ans: Cost ~~accounting~~ is the amount of expenditure incurred for the payments of items like materials, labour, overheads and capital expenditure. The explaination of cost on the basis of variability or behaviour are as follows:-

i) Fixed costs:

Fixed costs which are also known as periodic costs do not differentiate due to change in quantity or number of output. Those costs depend mainly on the effluxin of time and do not vary directly with the volume of units of output.

ii) Variable Costs:

The costs that are vary directly and proportionately in accordance of volume of output are variable costs. These costs are also known as direct or marginal costs. There is a constant relatio between change in volume of output and change in variable costs.

iii) Semi-variable cost / mixed costs:

These costs represent both some part of variable costs and some part of fixed costs. In other words, they are the combination of both semi-variable costs and semi-fixed costs. They increase or decrease in accordance of varies in volume of output but not directly in proportion to output.

iv) Step fixed costs:

This is the stepped cost function. A fixed cost applies from zero activity up to a specific level at which point an additional fixed increment is incurred. This fixed increment than remains constant up to certain level and then again further fixed cost increment is required at a higher activity level.