COST ACCOUNDING

Introduction of cost accounting:

Definition-Nature and Scope-Principles of cost Accounting- Cost Accounting and Financial Accounting-Cost Accounting vs. Management Accounting-Installation of Costing System-Classification of Cost-Cost Centre-Profit Centre.

Cost accounting is a managerial accounting process that involves recording, analysing, and reporting a company's costs. It's a way for businesses to identify areas where they can reduce costs, and to make decisions about pricing, budgeting, and profitability.

Cost accounting tracks and analyses all costs related to a company's products, goods, or services, including: Material costs, Labour costs, and Operating costs.

Cost accounting is an internal process, so companies can customize their collection methods to meet their needs.

One popular cost accounting method is activity-based costing (ABC), which assigns a value to each activity required to manufacture a product. This can help companies identify which products are not profitable, and whether a product's price is too high.

Other terms related to cost accounting include:

- **Costing**: The technique and process for determining cost
- **Cost control**: Techniques for guiding and regulating cost optimization
- **Budgeting**: A comprehensive plan of operations and actions expressed in financial terms
- **Cost audit**: A process for verifying the correctness of cost records

Nature and Scope of cost Accounting

Cost accounting is a business practice that involves recording, analyzing, and summarizing a business's costs for products, services, or processes. It helps businesses control costs, make strategic plans, and measure their financial performance.

Here are some aspects of cost accounting:

Cost control

Cost accounting helps businesses identify where to cut costs without affecting production levels. Businesses can then create new budgets based on the reduced costs.

Ascertainment of cost

Cost accounting helps businesses determine the right cost for production by analyzing different cost parameters, such as actual costs, historical costs, and marginal costs.

Strategic planning

Cost accounting helps businesses improve cost efficiency and make strategic plans.

Financial performance measurement

Cost accounting helps businesses measure their financial performance by comparing input costs to output results.

Profitability

Cost accounting helps businesses determine the profitability of their products and services. It also helps businesses compare profits over time and identify which products and services are most profitable

Principles of cost Accounting

His principles of cost accounting are as follows:

1. Cost accounting systems aim to work out the cost of producing **goods** and services soon on completion and not long after production.

2. Cost accounting also aims to attribute all costs to individual products that are manufactured and sold (or with services generated and sold). This process consists of two features:

- Classifying costs as **direct and indirect** in relation to specific products
- The remaining costs are classified as direct and indirect to departments and, from there, costs are charged to products

3. Cost accounting utilizes several cost classification approaches to suit different managerial needs.

4. A number of **costing methods and techniques** are used for costing products, cost control, and managerial decisions.

5. Only normal costs form part of the cost of production. Abnormal costs are regarded as losses.

6. Although cost accounting—particularly the integrated system of **accounting**—can ultimately produce **financial statements** (i.e., **profit and loss account** and **balance sheet**), its emphasis is on managerial accounting.

Cost Accounting and Financial Accounting:

Cost accounting and financial accounting are both accounting systems, but they differ in their purpose, who uses the information, and how often reports are issued:

Purpose

Cost accounting is used to help management make decisions about production, planning, and control. Financial accounting is used to summarize and report a business's financial performance to external stakeholders.

Who uses the information?

Cost accounting information is used by internal parties like managers, directors, and employees. Financial accounting information is used by both internal and external parties, such as investors and creditors.

Reporting schedule

Cost accounting staff can issue reports at any time and with any frequency based on management's needs. Financial accounting personnel typically issue reports only at the end of a reporting period.

Here are some other differences between cost accounting and financial accounting:

Information

Cost accounting tracks costs related to materials, labour, and overhead during production. Financial accounting records monetary information.

Template

Cost accounting is tailored to the specific needs of each firm. Financial accounting must follow a set template.

Cost types

Cost accounting includes historical and predetermined costs. Financial accounting only includes historical costs.

Cost Accounting vs. Management Accounting:

Cost accounting is that section of accounting which strives at generating data to manage operations with a view to maximizing profits and performance of the company, it is also termed control accounting. On the contrary, management accounting is that type of accounting which support management in planning and decision-making and hence known as decision accounting.

What is Cost Accounting?

It is an accounting system that aspires to capture an enterprise's costs of manufacturing by evaluating the input costs of each step of manufacturing as well as fixed costs, namely, depreciation of capital equipment. Cost accounting will initially compute and document these costs separately, then analyse input outcomes to output or actual outcomes to assist the enterprise's management in computing financial accomplishment.

What is Management Accounting?

It refers to the outlining of financial and non-financial data for the utilisation of management of the enterprise. The data furnished is useful in outlining budgeting, forecasting plans, policies and strategies, evaluating the performance and making comparisons of the management.

This article is a ready reckoner guide for all the students to learn the difference between Cost Accounting and Management Accounting:

Basis	Cost Accounting	Management Accounting
Meaning	Cost accounting is an accounting system that aspires to capture an enterprise's costs of manufacturing by evaluating the input costs of every step of manufacturing as well as the fixed costs, namely, depreciation of capital equipment.	Management Accounting refers to the outlining of financial and non-financial data for the utilisation of management of the enterprise. It is also known as managerial accounting.
Data type	Quantitative	Both Quantitative and Qualitative
Scope	Focused on distribution, allocation, determination and accounting factors of the cost	Convey (impart) and effect factor of the cost
Objective	Determined in cost production	Furnishing data to the managers to fix goals and anticipate strategies
Specific procedure	Yes	No
Planning	Short term planning	Both Short and long term planning
Recording	Records both past and present data	Focuses more on scrutinizing for future projects
Interdependency	Can be installed without a Management accounting	Cannot be installed without cost accounting