



# **TRINITY COLLEGE FOR WOMEN NAMAKKAL**

**Department of Commerce**

**ADVANCED COST ACCOUNTING**

**19P11-ODD Semester**

**Presented by**

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# Cost Accounting

## Cost-Meaning:

An amount that has to be paid or given up in order to get something. In business, cost is usually a monetary valuation.

## COST ACCOUNTING

Cost accounting is concerned with recording, classifying and summarizing cost for determination of costs of products or services, planning, controlling and reducing such costs and furnishing information.

According to Wheldon, “Cost accounting is the application of accounting and costing principles, methods and techniques in the ascertainment of costs and the analysis of saving/or excess cost incurred as compared with previous experience or with standards”. Thus, cost accounting relates to the collection, classification, ascertainment of cost and its accounting and control relating to the various elements of cost.

# OBJECTIVES OF COST ACCOUNTING

- ❖ To ascertain the **cost per unit** of the different products manufactured by a business concern;
- ❖ To provide a **correct analysis** of cost both by process or operations and by different elements of cost;
- ❖ To **disclose sources of wastage** whether of material, time or expense or in the use of machinery, equipment and tools and to prepare such reports which may be necessary to control such wastage,
- ❖ To provide requisite data and serve as a guide for **fixing prices** of products manufactured or services rendered;
- ❖ To ascertain the **profitability** of each of the products and advise management as to how these profits can be maximized;
- ❖ To exercise **effective control** if stocks of raw materials, work-in-progress, consumable stores and finished goods in order to minimise the capital locked up in these stocks;
- ❖ **To reveal sources** of economy by installing and implementing a system of cost control for materials, labour and overheads;
- ❖ **To advise management** on future expansion policies and proposed capital projects;
- ❖ To **present and interpret data** for management planning, evaluation of performance and control;

- ❖ To help in the **preparation of budgets** and implementation of budgetary control;
- ❖ To organize an **effective information** system so that different levels of management may get the required information at the right time in right form for carrying out their individual responsibilities in an efficient manner
- ❖ **To guide management** in the formulation and implementation of incentive bonus plans based on productivity and cost savings;
- ❖ To supply **useful data** to management for taking various financial decisions such as introduction of new products, replacement of labor by machine etc.;
- ❖ To help in **supervising** the working of punched card accounting or data processing through computers;
- ❖ To organize the **internal audit** system to ensure effective working of different departments.
- ❖ To organize **cost reduction** programs with the help of different departmental managers.
- ❖ To provide specialized services of cost audit in order **to prevent the errors and frauds** and to facilitate prompt and reliable information to management; and.
- ❖ To **find out costing profit or loss** by identifying with revenues the costs of those products or services by selling which the revenues have resulted.

# **IMPORTANCE OF COST ACCOUNTING**

- ❖ **Helps in controlling cost**
- ❖ **Provides necessary cost information**
- ❖ **Ascertains the total per unit cost of production**
- ❖ **Introduces cost reduction programs**
- ❖ **Discloses the profitable and non-profitable activities**
- ❖ **Provides information for the comparison of cost**
- ❖ **Checks the accuracy of financial accounts**
- ❖ **Helps invest and financial institutions**
- ❖ **Beneficial to workers**
- ❖ **Assists in increasing productivity**
- ❖ **Helps in cost reduction**

## Scope of Cost Accounting:

- ❖ Scope refers to **field activity**.
- ❖ It is concerned with ascertainment of **cost control**
- ❖ It is **helpful to the management** for cost control.
- ❖ **Cost reduction** through functions of planning, decisionmaking and control
- ❖ Main objective of cost accounting is to finding **product cost**.
- ❖ **Initially** cost accounting is **applied** in manufacturing concern.
- ❖ Now a days it is applied in **service organization**, Govt.org, Local authorities etc.







# ELEMENTS OF COST

1) **MATERIAL:** The substance from which the finished product is made is known as material.

- **Direct Material:** It is one which can be directly or easily identified in the product
- **Indirect Material:** one which cannot be easily identified in the product.

2) **LABOUR:** The human effort required to convert the materials into finished product is called labour.

- **Direct labour:** It is one which can be conveniently identified or attributed wholly to a particular job, product or process.
- **Indirect labour:** It is one which cannot be conveniently identified or attributed wholly to a particular job, product or process.

3) **OTHER EXPENSES:** are those expenses other than materials and labor.

- **Direct Expenses:** are those expenses which can be directly allocated to particular job, process or product.
- **Indirect Expenses:** are those expenses which cannot be directly allocated to particular job, process or product.

# THANK YOU

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