**Cost accounting;**

DEFINITION, SCOPE, OBJECTIVES AND SIGNIFICANCE OF COST ACCOUNTING, ITS RELATIONSHIP WITH FINANCIAL ACCOUNTING AND MANAGEMENT ACCOUNTING;

Way back to 15th Century, no accounting system was there and it was the barter system prevailed. It was in the last years of 15th century Luca Pacioli, an Italian found out the double entry system of accounting in the year 1494. Later it was developed in England and all over the world up to 20th Century. During these 400 years, the purpose of Cost Accounting needs is served as a small branch of Financial Accounting except a few like Royal wallpaper manufactory in France (17th Century), and some iron masters & potters (18th century). The period 1880 AD- 1925 AD saw the development of complex product designs and the emergence of multi activity diversified corporations like Du Pont, General Motors etc. It was during this period that scientific management was developed which led the accountants to convert physical standards into Cost Standards, the latter being used for variance analysis and control. During the World War I and II the social importance of Cost Accounting grew with the growth of each country’s defense expenditure. In the absence of competitive markets for most of the material required for war, the governments in several countries placed cost-plus contracts under which the price to be paid was cost of production plus an agreed rate of profit. The reliance on cost estimation by parties to defence contracts continued after World War II. In addition to the above, the following factors have made accountants to find new techniques to serve the industry :- (i) Limitations placed on financial accounting (ii) Improved cost consciousness (iii) Rapid industrial development after industrial revolution and world wars (iv) Growing competition among the manufacturers (v) To control galloping price rise, the cost of computing the precise cost of product / service (vi) To control cost several legislations passed throughout the world and India too such as Essential Commodities Act, Industrial Development and Regulation Act...etc Due to the above factors, the Cost Accounting has emerged as a speacialised discipline from the initial years of 20th century i.e after World War I and II. In India, prior to independence, there were a few Cost Accountants, and they were qualified mainly from I.C.M.A. (now CIMA) London. During the Second World War, the need for developing the profession in the country was felt, and the leadership of forming an Indian Institute was taken by some

COST ACCOUNTING;

Cost Accounting may be defined as “Accounting for costs classification and analysis of expenditure as will enable the total cost of any particular unit of production to be ascertained with reasonable degree of accuracy and at the same time to disclose exactly how such total cost is constituted”. Thus Cost Accounting is classifying, recording an appropriate allocation of expenditure for the determination of the costs of products or services, and for the presentation of suitably arranged data for the purpose of control and guidance of management. Cost Accounting can be explained as follows :- Cost Accounting is the process of accounting for cost which begins with recording of income and expenditure and ends with the preparation of statistical data. It is the formal mechanism by means of which cost of products or services are ascertained and controlled. Cost Accounting provides analysis and classification of expenditure as will enable the total cost of any particular unit of product / service to be ascertained with reasonable degree of accuracy and at the same time to disclose exactly how such total cost is constituted. For example it is not sufficient to know that the cost of one pen is ` 25/- but the management is also interested to know the cost of material used, the amount of labor and other expenses incurred so as to control and reduce its cost. It establishes budgets and standard costs and actual cost of operations, processes, departments or products and the analysis of variances, profitability and social use of funds.

Advantages of Cost Accounting;

Cost Accounting has manifold advantages, a summary of which is given below. It is not suggested that having installed a system of Cost Accounting, a concern will expect to derive all the benefits stated here, the nature and the extent of the advantages obtained will depend upon the type, adequacy and efficiency of the cost system installed and the extent to which the various levels of management are prepared to accept and act upon the advice rendered by the cost system. The Cost Accounting System has the following advantages:-

 (i) A cost system reveals unprofitable activities, losses or inefficiencies occurring in any form such as

(a) Wastage of man power, idle time and lost time.

 (b) Wastage of material in the form of spoilage, excessive scrap etc.,

(c) Wastage of resources, e.g. inadequate utilization of plant, machinery and other facilities.

 (ii) Cost Accounting locates the exact causes for decrease or increase in the profit or loss of the business. It identifies the unprofitable products or product lines so that these may be eliminated or alternative measures may be taken.

(iii) Cost Accounts furnish suitable data and information to the management to serve as guides in making decisions involving financial considerations.

 (iv) Cost Accounting is useful for price fixation purposes. Although sale price is generally related more to economic conditions prevailing in the market than to cost, the latter serves as a guide to test the adequacy of selling prices.

 (v) With the application of Standard Costing and Budgetary Control methods, the optimum level of efficiency is set.

(vi) Cost comparison helps in cost control. Comparison may be period to period, of the figures in respect of the same unit or factory or of several units in an industry by employing Uniform Costs and Inter- Firm Comparison methods. Comparison may be made in respect of cost of jobs, process or cost centres.