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#  Assignment. 800 words

# Subject. Cost accounting

 Semester. 4th

# Introduction

In the initial stages cost accounting was merely considered to be a technique for ascertainment of cost

of products or services on the basis of historical data. In course of time due to competitive nature of

the market, it was realized that ascertainment of cost is not as important as controlling costs. Hence, cost

accounting started to be considered more as a technique for cost control a s compared to cost ascertainment.

Due to technological development in all fields, now cost reduction has also come within the ambit of cost

accounting. Cost accounting is thus concerned with recording, classifying and summarizing costs for

determination of costs of products or services, planning, controlling and reducing such costs and furnishing

of information to management for decision accounting is the process of accounting for costs from the point at which the expenditure is incurred

of committed to the establishment of its ultimate relationship with cost units. In its widest sense, it embraces

the preparation of statistical data, the application of cost control methods and the ascertainment of the

profitability of the activities carried out or planned is defined as the application of accounting and costing

principles, methods and techniques in the ascertainment of costs and the analysis of saving and/or excess as

compared with previous experience.

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# a) Financial Accounting:

 This is called original accounting, which is mainly confined to the preparation

of financial statement for the various concern parties and financial institutions.

# b) Cost Accounting

: The process of accounting for cost which begins with the recording of income

and expenditure or the bases on which they are calculated and ends with the preparation of periodicals

statements and reports for ascertaining and controlling cost.

# c) Management Accounting:

 Management accounting is a distinctive form of resource management

which facilitates management’s ‘decision making’ by producing information for managers within

organization.

# d) Inflation Accounting:

This accounting system do not consider the cost constant at every time

because the price of a commodity change with time to inflation and decline purchasing power of

money.

# e) Social Accounting:

This deals with the application of double entry system of book keeping to

socio-economic analysis at the preparation, estimation and interpretation of nation and international

income and balance sheet.

f) Value –Added Accounting: In this system income is measured by the value added by a firm in a

particular period. It is the difference between the value of the product and the cost of raw material,

stores and any brought out component used for production.

g) Human Resource Accounting: Human Resource accounting is the measurement of the cost and

value of people for the organization or it is the process of identifying and measuring data about

human resources and communicating this information to interested parties.

A good system of costing is the technique of controlling the expenditure and helps bringing economy in

production, so it serves the needs of a large section of people in the following ways.

(a) Benefits to the Management: The information revealed by cost accounting aims at mainly assisting

the management in decision making and optimizing profits. Besides this there are certain advantages

of cost accounting to the management i.e. it helps in price fixation, in revealing profitable and

unprofitable activities, idle capacity, in controlling cost and also helps in inventory control.

(b) Benefits to the Employees: Cost accounting introduces wage scheme, bonus to the efficient &

sincere employees which in turn increasing productivity, profitability and lowering cost.

(c) Benefits to Creditors: The better management of finance through cost accounting leads to timely

debt servicing by company in the form of repayment of loan and payment of interest. To stay and

grow in competition and for judging soundness of present and perspective borrower and cost

reports give better picture of efficiency profit prospectus and capacity.

(d) Benefits to the Government: Cost accounting enables the Govt. to prepare plans for economic

development of the country, to make policies regarding taxation, excise duty, export, price, ceistores...

granting subsidy etc.

(e) Benefits to Consumers/Public: Cost accounting helps consumers in getting goods of better

quality at reasonable price.

#  Importance

Cost accounting gives information and reports to the management in the following ways:-

(a) Control of Material Cost –Cost of material is a major portion of the total cost of a product. It can

be controlled by regular supply of material and spares for production, maintaining optimum level of

funds in stocks of materials and stores.

(b) Control of Labour Cost: If workers complete their work within the specified time cost of labour

can be controlled.

(c) Control of Overheads: By keeping a strict check over various overheads such as factory,

administrative and selling & distribution, this can be controlled.

(d) Measuring Efficiency: Cost accounting provides information regarding standards and actual

performance of the concern activity for measuring efficiency.

(e) Budgeting: The preparation of the budget is the function of costing department and budgeting is

done to ensure that the practicable course of action can be chalked out and the actual perform

corresponds with the estimated or budgeted performance.

(f) Price Determination: On behalf of cost accounting information, management is enable to fix

remunerative selling price for various items of products and services in different circumstances.

(g) Expansion: The management may be able to formulate its approach to expansion on the basis of

estimates of production of various levels.

#  Installation of Cost Accounting System

It is essential to undertake a preliminary investigation installing a suitable system of cost accounting to know

the feasibility of installing cost accounting system to such business.

(a) Essential Conditions: The following conditions are essential for successful functioning of the costing

system:-

(i.) Material control system should be very efficient.

(ii.) The role of cost accounting must be clear.

(iii.) The methods of wage payment must be sound and well designed.

(iv.) The cost report should be printed forms to facilitate quick compilation.

(v.) The cost and financial accounts must be integrated so as to facilitate reconciliation of profit.

(b) Essential Factors for Installing a Cost Accounting System: The following essential factors are

to be considered before installing a cost accounting system :-

(i) Nature of Industry –There is no technique or method of costing that can be applied universally.

The nature of business should be considered while applying the costing techniques.

(ii) Background of Business Unit –The back ground of business unit includes its existence,

position, rate of growth, policy and philosophy of management. It serves as a basis for designing the

cost accounts in respect of necessity, simplicity and investment involved in installing cost account.

(iii) Selling & Distribution Method –The warehousing facility, external transport, market research

and other promotion measures, terms of sale and promotion of orders from customers are to be

considered with regard to distribution process.

(iv) Flexibility and Uniformity – The cost accounting system to be install must be flexible and

uniform in operation and must be capable of adoption to changing conditions and facilitates inter

firm comparison among various firms belonging to the same industry.

(v) Product Range – Range of product must be analyzed in terms of size, models, fashions, area

of market and competitors to determine the method of costing to be selected.

(vi) Organizational Factors – Size and type of organization, levels of management, extent of

delegation and responsibility, extent of departmentalization, availability of modem office equipments.

a) Job Costing: In this system the cost of each job is ascertained separately which is suitable in all

cases where work is undertaken on receiving a customer’s order. Like a printing press, motor work

shop etc.

b) Batch Costing: It is considered as the extension of job costing. It represents a number of small

orders passed through the factory in batch. Each batch here is treated as a separate unit of cost.

c) Contract Costing: It is suitable for the firms which are engaged in the work of construction of

bridges, roads, buildings etc.

d) Single or Output Costing: It is used in the business where a standard production is turned out and

it is desired to find the cost of a basic unit of production.

e) Process Costing: It is a method of costing used to ascertain the cost of a product which may

passes through various processes before completion.

f) Operating Costing: The cost of providing a service is known as operating cost and the methods

to ascertain the cost of such services is known as operating costing.

g) Multiple Costing: In multiple costing, a combination of two or more methods of costing is used in

conjunction to determine the cost of final product. This method is used by the industries where

different components are separately manufactured and subsequently assembled into the finished

product. For e.g.: Motor car, Television, Ships etc.

#  expenditure

#  product

#  service

#  profitability

# managerial

#  decision making

#  Financial accounting

#  social accounting

#  inflation accounting

# Human resource accounting

#  creditors

#  Debitors

#  supply

#  production

#  stocks

#  Funds

#  labor

#  factory overhead

#  Budget

#  Efficiency

#  job costing

#  contract costing

#  process costing

#  operating costing

#  Multiple costing

#  Uniform costing

# Normal costing

#  Direct costing

#  output costing

#  Historical costing

#  Marginal costing

#  Material

# Ending material

#  purchasing

#  income statement

#  Cost

#  Expenses

#  profit

#  loss

#  Direct material cost

#  Direct labor cost

#  Direct expenses cost

#  indirect material cost

#  indirect labour cost

#  indirect expense cost

#  Fixed cost

#  variable cost

# product cost

#  Manufacturing cost

#  selling and distribution cost

#  Administrative cost

#  capital cost

#  Revenue cost

#  Opportunity cost

#  sunk cost

#  Revelant cost

#  Differential cost

#  cost of control

# standard cost

#  Mixed cost

#  joint cost

#  common cost

# period cost

#  prime cost

#  factory cost

#  office cost

#  total cost

#  Raw materials

#  stock

#  revenue

#  work in process

#  Initiating the Purchase Purchase Requisition

#  Deciding Important Factors

# . Studying the Market and Sources of Supply

#  Placing the Purchase Order

# Follow Up

#  Receiving and Inspecting the Goods

#  Passing Invoic for payment

# cost of materials consumed

#  Works cost

#  Cost of production

#  Percentage of works overhead to productive wages

#  Percentage of general overhead to works cost

#  Stock of materials

# Purchase of raw materials

# Stock of finished goods

# Productive wages

#  Finished goods sold

# Works overhead chart

# Office and general expenses

# Stock of materials

#  Stock of finished goods

# Stock less purchase

#  Tender purchase

#  Lead time

#  System contract

#  GRN

# Purchase order

# Techniques of inventory control:

#  . Setting of Various Stock Levels.

# . ABC Analysis.

# Two Bin System.

# . Establishment of System of Budgets.

#  Use of Perpetual Inventory Records and Continuous Stock Verification.

# . Determination of Economic Order Quantity.

# Review of Slow and Non-moving Materials and Stock Items.

# . Use of Control Ratios.

# Setting of Various Stock Levels:

#  Setting of various stock levels.

#  ABC analysis.

#  . Two bin system.

#  Establishment of system of budgets.

#  Use of perpetual inventory records and continuous stock verification.

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#  Review of slow and non-moving items.

# . Use of control ratios.

# Important Formula

# 1. Maximum Level = Reorder level + Reordering Quantity – (Minimum Consumption x

#  Minimum Lead time)

# 2. Minimum Level = Reorder Level – (Average Consumption x Average Lead time)

# 3. Average Stock Lever = Maximum Level + Minimum Level / 2

# Or Minimum Level + ½ reorder quantity

# 4. Reorder Level = Maximum Consumption x maximum lead time

# 5. Danger Level = Average Consumption x Emergency delivery time

# 7. No. of orders per year = Annual consumption / EOQ

# 8. Time between two consecutive orders = 365 / No. of orders per year

# 9. Inventory Turnover ratio = Material Consumed / Average inventory

# 10. Inventory turnover period = 365 / inventory turnover ratio

# 11. Safety Stock = Annual Demand / 365 x Max. Lead time – Normal Lead time

# 12. Total inventory cost = ordering cost + carrying cost + purchase cost

# 13. Cost of material consumed = opening stock + purchase + direct expenses – closing.

# (1) For calculation of total inventory cost, average inventory should be taken as half of EOQ.

# Average inventory cost is normally given as a percentage of cost per unit.

# (2) To decide whether discount on purchase of material should be availed or not. Compare

# total inventory cost before discount and after discount. Total inventory cost include ordering purchased.Basek

# 1. Cost Price Methods:

# (b) Fist – in first – out method.

# (c) Last in – first – out method.

# (d) Base stock method.

# 2. Average Price Methods:(e) Simple average price method.

# (f) Weighted average price method.

# (g) Periodic simple average price method.

# (h) Periodic weighted average price method.

# (i) Moving simple average price method.

# (j) Moving weighted average price method.

# 3. Market Price Methods:

# (k) Replacement price method.

# (l) Realizable price method.

# 4. Notional Price Methods:

# (m) Standard price method.

#  Direct and Indirect Labour

# Control over Labour Cost

#  Labour Turnover

# Labour Turnover Rates

# Cost Analysis of Specific Types of Labour Cost

# Remuneration System

# Normal Remuneration Method

#  Incentive Wages Method

# Group Bonus Plans

# (a) Quality of work,

# (b) Quantity of work,

# (c) Attendance,

# (d) Discipline and cc-operations,

# (e) Job knowledge,

# (f) Initiatives,

# (g) Reliability and responsibility, and

# (h) Aptitude of work.

# 3. Time-keeping Department:

# 1 Separation Rate Method

# 2. Replacement Rate Method

# 3. Flux Rate Method

# Separation Rate 100

# Average Number of Workers induring a year / period

# 1. Halsey Premium Plan

# 2. Rowan Bonus Plan

# 3. Taylor's Plan

# 4. Emerson's Efficiency Plan

# 5. Merric's Plan

#  Priestman's Production Bonus

#  Cost Efficiency Bonus

# Town Gain Sharing Plan

#  Budgeted Expenses Bonus

# Waste Reduction Bonus

* 1. Rent rates and insurance of factory building.
* 2. Depreciation and repairs of plant and machinery.
* 3. Depreciation and repairs of factory building.
* 4. Store keeping expenses, cost of consumable stores.
* 5. Wages of indirect labour, normal idle time etc.
* 6. Salary of works manager, foreman.
* 7. Power used by machines.
* 8. Drawing office expnse.
* 2. Sales office and showroom’s rent.
* 3. Depreciation, insurance, repairs and maintenance of sales office, furniture and equipments.
* 4. Cost of preparing tenders-samples and folders.
* 5. Salaries of sales and publicity staff.
* 6. Commission brokerage etc. ehouse expenses
* 2. Upkeep and running of delivery vans.
* 3. Carriage outward.
* 4. Salary of drivers, warehouse staff.
* 5. General packing expenses and packing materials.
* Rent, Rates and Insurance Warehouse
* Directors Remuneration
* Travelling Expenses
* Office Salaries
* Bad Debts
* Warehouse Repairs
* Warehouse Wages
* Agent’s Commission
* Income Tax
* Bank Charges
* Donations
* Trade Magazine
* Printing, Stationery.