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Class BBA hons

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Date 15 June 2020

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Assignment cost accounting

Cost accounting is defined as "a systematic set  of procedures for recording and reporting  measurements of the cost of manufacturing  goods and performing services in the aggregate and in detail. It includes methods for  recognizing, classifying, allocating, aggregating  and reporting such costs and comparing them  with standard costs." Often considered a subset  of managerial accounting, its end goal is to  advise the management on how to optimize  business practices and processes based on cost  efficiency and capability. Cost accounting provides the detailed cost information that management needs to control current operations and plan for the future. Cost accounting information is also commonly used in financial accounting, but its primary function is for use by managers to facilitate their decision making. Cost accounting is defined as "a systematic set of procedures for recording and reporting measurements of the cost of manufacturing goods and performing services in the aggregate and in detail. It includes methods for recognizing, classifying, allocating, aggregating and reporting such costs and comparing them with standard costs." Often considered a subset of managerial accounting, its end goal is to advise the management on how to optimize business practices and processes based on cost efficiency and capability. Cost accounting provides the detailed cost information that management needs to control current operations and plan for the future. Cost accounting information is also commonly used in financial accounting, but its pri function is for use by managers to facilitate their decisionmary making.

Cost accounting is a valuable tool you use to reduce and eliminate costs in a business. You also use cost accounting to determine a price for your product or service that will allow you to earn a reasonable profit. Familiarize yourself with the most important formulas, terms, and principles you need to know to apply cost accounting. You’ll also want to get the scoop on text-taking strategies for cost accounting students.

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I would like to mention some accounting principles which every accountant must know. Those principles are given below,

Matching principle:

This principle states that your company’s revenue should be matched with the expenses that relate to that revenue. If you sell lamps in May, you create revenue for that month. The May revenue should be matched with the expenses you incurred for the lamps sold in May. So, the cost of the lamp is matched with the sales proceeds for the lamp’s sale.

Principle of conservatism:

Accountants often need to make judgments. Conservatism means that the decision should generate the least attractive financial result. If there’s a decision about revenue, the conservative choice is to delay recognizing revenue in the financial statements. Expenses should be posted to the financial statements sooner rather than later. These choices generate financial statements that are less optimistic, which is why the approach is called conservative.

At last I would like to mention some formulas which I learned from studying this subject. In order to reduce and eliminate costs in a business, you need to know the formulas that are most often used in cost accounting. When you understand and use these foundational formulas, you’ll be able to analyze a product’s price and increase profits.

Breakeven Formula:

Profit ($0) = sales – variable costs – fixed costs

Target net income = sales – variable costs – fixed costs

Gross Margin

Gross margin = sale price – cost of sales (material and labor)

Contribution Margin

Contribution margin = sales – variable costs

Pre-Tax Dollars Needed for Purchase

Pre-tax dollars needed for purchase = cost of item ÷ (1 – tax rate)

Price Variance

Price variance = (actual price – budgeted price) × (actual units sold)

Efficiency Variance

Efficiency variance = (Actual quantity – budgeted quantity) × (standard price or rate)

Variable Overhead Variance

Variable overhead variance = spending variance + efficiency variance

Ending Inventory

Ending inventory = beginning inventory + purchases – cost of sales