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Cost Accounting

The calculation of the cost of the commodities, method used to set prices or the accounting which helps the organization into their day-to-day decision making is known as cost accounting.

Planning:

It is an important function of management which means deciding in advance what to do and by whom to do. Plans are very necessary to give the organization its goals and direction and to establish the best procedure for reaching them.
The elements include in planning functions are,

1. The polices that will help to achieve goals
2. The programs that a manager will carry out
3. The procedure that a manger will utilize
4. The time schedule that a manager will have to meet

Controlling:

It is the most important function of management which means the check of the achieved goals against the plan which the management has set to achieve such goals. It is necessary for the manager to check such steps which taken towards the achievement of predetermined goal if they are not satisfactory then take remedial measure to make the business operation in to the line with the plan.

The controlling function involves,

1. Comparing actual events with the forecasts.
2. Comparing result achieved with the objectives, programs and schedules.
3. Measuring actual cost against budgeted cost

The Organization Chart:

It helps to define the authority and the responsibilities. It is essential to develop a cost system and cost report which define implementing management plan.

Type of Organization Chart:

Line-staff concept:

It is based on company's simple product line and the product which is not subjected to frequent changes over the years. This concept is divided into two groups.

- **A) Line:** Who make decision and perform the true management function.
- **B) Staff:** Give advice and perform technical functions.

Functional-Teamwork concept:

This concept balances important functions of organization. They are grouped together into

A). Resources Function:

Resources function involves the purchase and disposal of the end product.

B). Process Function:

It deals with activities such as product design, research and development, manufacturing, advertising, marketing and so on.

C). Human Inter-relation:

It interacts with inside and outside behaviour of stakeholder.

The framework for planning and controlling:

Nature of Cost accounting:

Cost accounting, sometimes called management or managerial accounting, should be considered the key managerial partner, furnishing management with the necessary accounting tools to plan and control activities.

- In planning phase, cost accounting deals with future. It helps management to budget the future or predetermined material costs, wages and salaries and other costs of manufacturing and marketing products.
- In controlling phase, cost accounting deals with the present, comparing current results with predetermined standards and budgets.

Tasks of Cost accounting:

1. **Reduce cost:**
   Establishing methods and procedures in order to reduce cost make.
2. **Budget analysis:**
   Make specific tips in making, participating and execution of plan by doing proper budget analysis.
3. **Price Analysis:**
   By demand of law and supply, increase or decrease cost and profit. It helps to create inventory value (law of demand) and at the same time control quantity of the inventory. (Law of supply).
4. **Cost Calculation for stakeholders:**
   With the period of time calculate cost of the company for all the stakeholder (external and internal).
5. **Opportunity Analysis:**
   Create opportunity analysis in order to control cost which is mostly done by R and D department.

Scope of Cost Accounting:

Cost accounting is generally considered applicable only to manufacturing operations. Every type and kind of activity, regardless of size, in which monetary value is involved should consider the use of cost accounting concepts and techniques.

Cost Department:

The cost department is responsible for keeping records associated with the accounting for manufacturing and nonmanufacturing activities. To attain the greatest usefulness, the cost department must not only record but also analyse all costs of manufacturing, marketing and administration for use by management in planning and control.

What is Accountability?

Accountability is when an individual or department is held responsible for the performance of a specific function.

LIFO vs FIFO:
FIFO and **LIFO** accounting methods are used for determining the value of unsold inventory, the cost of goods sold and other transactions like stock repurchases that need to be reported at the end of the accounting period. FIFO stands for First In, First Out, which means the goods that are unsold are the ones that were most recently added to the inventory. Conversely, LIFO is Last in, First Out, which means goods most recently added to the inventory are sold first so the unsold goods are ones that were added to the inventory the earliest.

What are the responsibilities of CEO?

1. Communicating, on behalf of the company, with shareholders, government entities, and the public
2. Leading the development of the company's short- and long-term strategy
3. Creating and implementing the company or organization's vision and mission
4. Evaluating the work of other executive leaders within the company, including directors, vice presidents, and presidents
5. Setting strategic goals and making sure they are measurable and describable

Types of Cost Accounting:

1. **Standard cost accounting**:
   This type of cost accounting uses different types of ratios to compare how efficiently labour and materials are being used (or can be used) to produce goods and services in standard conditions.

2. **Activity based cost accounting:**
   An approach to the costing and monitoring of activities which involves tracing resource consumption and costing final outputs, resources assigned to activities, and activities to cost objects based on consumption estimates.
3. **Lean accounting:**
   lean accounting emphasizes on value-based pricing and lean-focused performance measurements.
4. **Marginal costing:** Also called cost-volume-profit analysis, this type of cost accounting involves analysing the relationship between the company's products, sales volume, production amount, profits, costs and expenses.

Why a company has one finance department?

Ans: In order to control the waste of resources.

LIFO vs FIFO?
If a company has expiry issue first in first out is use and it's even good if a company wants to attract the shareholders. Where as, last in first out is use for mineral businesses and even good because tax is less because of less net profit.

Efficiency level with respect to cost accounting:

If at a constant price level you control the cost of the commodity, the more a company control its cost the more profitable it will earn, and this all scenario shows company's efficiency level.

What is CGS statement and how to solve CGS statement?

Cost of goods sold, often abbreviated COGS, is a managerial calculation that measures the direct costs incurred in producing products that were sold during a period. In other words, this is the amount of money the company spent on labor, materials, and overhead to manufacture or purchase products that were sold to customers during the year.

Notice that this number does not include the indirect costs or expenses incurred to make the products that were not actually sold by year-end. It only includes direct costs for the merchandise that was sold. The purpose of the COGS calculation is to measure the true cost of producing merchandise that customers purchased for the year.