

COST AND MANAGEMENT ACCOUNTING – 1

CLASS -1

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UNIT- 1 INTRODUCTION

COSTING

In the Terminology of the ICMA London costing has been expressed as “The techniques and processes of ascertaining cost”. As a technique it implies a body of principles and rules applied for ascertaining cost. As a process it involves the procedure for ascertainment of cost. It is concerned with computation of cost and ascertainment of profits.

Costing Covers:

- Ascertainment of costs.
- Analysis of costs.
- Allocation of costs.
- Apportionment of costs.
- Absorption of cost.

COST ACCOUNTING

It is a specialised branch of accounting that remains involved with the classification , accumulation , assignment and control of cost.

CIMA London has defined it as “The establishment of budgets , standard costs and actual costs of operations , processes , activities or products and the analysis of variances , profitability or the social use of funds” .

OBJECTIVE OF COST ACCOUNTING

Cost accounting provide a systematic set of procedures for recording and reporting measurements of cost of manufacturing goods and performing services.

1. Ascertainment of cost – Cost ascertainment involves collection of cost data , their classification and condensation according their needs or functions and their appropriate allocation and absorption.

2. Estimation of cost – It means pre determination of cost of units to be produced , jobs or orders to be executed and services to be rendered in future. It helps to establishment standard cost to give the scope of analysing variances and profitability.

3. Fixation of selling price – The selling price is fixed by adding desired profit with actual cost or estimated cost . The quotation or tender price , value of different orders can be fixed with help.

4. Cost control – Cost accounting techniques are applied to fix standards or budgeted cost. Comparison can be made with actual cost. Variances, wastages, losses or inefficiencies can be detected.

5. Cost reduction – It provide techniques to reduce cost but to maintain or improve quality. It aims to reduce cost of goods and services , actual budgeting control and marginal costing.

6. Cost reporting – It provides different pieces of information regarding goods produced and services rendered. The management requires such information to prepare cost statements and other statements as and when required.

7. Rendering assistance in decision making - cost accounting helps to determine cost volume profit relationship, operations to be shut down or making any replacement, etc. correct decision depend much upon cost accounting.

MANAGEMENT ACCOUNTING

It is a branch of accounting related to the presentation of accounting information to the management in a manner to assist them in discharging their managerial function like planning , decision making and control. Management supply information about its past and present operations for deciding future trends and course of action. It contains techniques to solve problems , take right decisions, plan effectively and to exercise control.

The ICWAI opines that “ Management accounting is a system of collection and presentation of relevant economic information relating to an enterprise for planning , controlling and decision making.

Budgetary control ,standard costing ,marginal costing , breakeven analysis, cost volume and profit analysis etc are some techniques used by cost accountant under management accounting.