

Basic Cost Objectives and Scope of Cost Accounting

Meaning of Cost accounting

Cost accounting is a commercial practice in which we record, examine, summarize and study the cost of a company that is spent on any process, service, product, or anything else in the organization. This helps the organization control cost, make strategic planning, and make decisions about improving cost efficiency. These financial statements and ledger books give management an insight into their cost information. Management gets an idea where they have to control the cost and where they have to increase more, which helps create a vision and a future plan. There are different types of cost accounting such as marginal cost, activity based cost, standard cost accounting, and lean accounting.

Definition of Cost accounting

The Chartered Institute of Management Accountants in England (CIMA) has defined Cost Accounting as, 'the process of accounting for cost from the point at which expenditure is incurred or committed to establishment of its ultimate relationship with cost centers and cost units. In its widest usage, it embraces the preparations of statistical data, the application of cost control methods and the ascertainment of the profitability of activities carried or planned'. It is a formal mechanism by means of which costs of products or services are ascertained and controlled.

Objectives of Cost accounting

The objectives of cost accounting are to check the cost, establish the selling price, appropriate registration and present cost data to the management to measure efficiency, monitor costs and reduce costs, verify the profit of each activity, and assist the administration in decision-making and determine the break-even points.

The goal is to know the methods by which expenditures on materials, wages and overheads are recorded, classified and allocated so that the cost of products and services can be accurately verified; these costs may be related to sales and profitability can be determined. But as business and industry evolve, their goals change day by day.

The following are the main objectives of cost accounting:

1. To check the cost per unit of different products manufactured by the company.

2. Provide a correct cost analysis according to each process and the different cost elements.
3. Provide the required data and act as a guide for determining the prices of manufactured products or services provided;
4. To ascertain the profitability of each of the products and advise management on how to maximize these profits;
5. Exercising effective control over the stock of raw materials, work in progress, consumer stores and finished goods in order to reduce the capital held in these stocks;
6. Disclosing the sources of the economy through installing and implementing a system to control the costs of materials, labor and overheads.
7. Advising the management on future expansion policies and proposed capital projects.
8. To know the cost of profit or loss by determining the costs of those products or services through the sale that resulted in the revenue.
9. Presenting and interpreting data for administrative planning, performance evaluation and oversight.
10. Assist in preparing budgets and implementing budget control.
11. Organizing an effective information system so that different levels of management can obtain the information needed in a timely and proper manner to carry out their individual responsibilities in an effective manner.
12. Directing the administration in formulating and implementing incentive compensation plans based on productivity and cost savings.
13. To provide management with useful data for making various financial decisions such as introducing new products, replacing labor with the machine, etc.
14. Help in supervising the work of punch card accounts or processing data through computers.
15. Organizing the internal audit system to ensure the effective work of the various departments.
16. To organize cost reduction programs with the help of managers of different departments;

17. Provide specialized cost-audit services to prevent errors and fraud and facilitate quick and reliable management information.

Scope of Cost Accounting

Accounting has a very broad scope and scope of application. Its use is not limited to the business world alone, but it is spread in all areas of society and all professions. Now, in any social institution or professional activity, whether it is profit or not, financial transactions must take place. Therefore, the need arises to record and summarize these transactions when they occur and the need to know the net result of them after the end of a specific specified period. Besides, there is also a need to interpret this information and communicate it to the right people. Only the use of accounting can help overcome these problems.

In the modern world, the accounting system is applied not only in all businesses but also in many non-commercial institutions such as schools, colleges, hospitals, charitable donation clubs, cooperative society, etc. as well as government and local self-government in the form of the municipality of Panchayat..

Following are the various applicability's of cost accounting:

1. **Cost analysis:** Cost accounting determines the deviation of the actual cost compared to the planned expenses, as well as the reason for this difference.
2. **Cost audit:** To verify cost sheets and ensure effective implementation of cost accounting principles in industries, cost is reviewed.
3. **Cost report:** Cost reports are prepared from the data obtained through cost accounting for analysis by management for strategic decision making.
4. **Cost Assurance:** In order to determine the price of a product or service, it is necessary to know the total cost involved in generating that product or service.
5. **Book keeping:** similar to financial accounting. Journal entries, ledger, balance sheet, profit and loss account are also set up in cost accounting. Here, the various costs incurred are deducted, and income from the product or service is restricted.
6. **Cost System:** Provides from time to time the monitoring and evaluation of the cost incurred in producing goods and services to create cost reports for management.

7. **Cost comparison:** looking in the product line or other alternative activities and the cost involved, to find a better opportunity for a high return.
8. **Cost Control:** Sometimes, the actual cost of a product or service becomes higher than the standard cost. To eliminate the difference and control the actual cost, cost accounting is required.
9. **Cost accounting:** When a company participates in the production of bulk units for a specific product or commodity, the actual cost per unit is derived through cost accounting.
10. **Cost reduction:** acts as a tool for management to see if there is any scope for reducing the standard cost involved in producing goods and services. It is intended for additional gains.