

Chapter -1 Basics of Cost and Management Accounting

Introduction:

Cost is the amount of resources spent for manufacturing goods or providing services.” ICMA, London defines cost as; **"The amount of expenditure (actual or notional) incurred on, or attributable to a specified thing or activity."** The activity of a firm may be the manufactured of the product or the rendering of the service which involved expenditure under various heads such as materials, labour, other expenses, etc. Management accounting can be viewed as management-oriented accounting. Basically, it is the study of managerial aspect of financial accounting, "Accounting in relation to management function". It shows how the accounting function can be re-oriented so as to fit it within the framework of management activity.

1.1) Concepts of Cost, Costing, Cost Accounting and Cost Accountancy and Management Accounting:

In practice, the terms 'costing', 'cost accounting', and 'cost accountancy' are used interchangeably. However, 'costing' should not be confused with 'cost accounting'. Costing refers to the technique and process of ascertaining costs. The technique consists of the principles and rules for determining the cost of products and services. The process of costing is the day-to-day routine of ascertaining costs. Cost accounting on the other hand, is defined as the process of accounting for cost. It starts from the point at which expenditure is incurred or committed till the establishment of its ultimate relationship with cost centre or cost unit It is the specialised branch of accounting which involves classification, accumulation, allocation, absorption and control of costs

1.1.1 Concept of Cost:

The term 'cost' means the amount of expenses [actual or notional] incurred on or attributable to specified thing or activity. As per Institute of cost and work accounts (ICWA) India, Cost is 'measurement in monetary terms of the amount of resources used for the purpose of production of goods or rendering services. To get the results we make efforts. Efforts constitute cost of getting the results. It can be expressed in terms of money; it means the amount of expenses incurred on or attributable to some specific thing or activity.

A) Meaning:

The term cost is used in this very form. In reference to production/manufacturing of goods and services cost refers to sum total of the value of resources used like raw material and labour and expenses incurred in producing or manufacturing of given quantity. Cost is the amount of resource given up in exchange for some goods or services. The resources given up are money or money's equivalent expressed in monetary units. Cost is defined as the 'value' of the sacrifice made to acquire goods/services, measured in monetary terms by the acquisition of assets or incurrance of liabilities at the time the benefits are acquired

B) Definition:

Definitions of Concept of Cost are as follows:

1) The Chartered Institute of Management Accountants, London:

"Cost as the amount of expenditure (actual or notional) incurred on, or attributable to a specified thing or activity."

2) Cost Accounting Standards of ICWA of India :

"Cost is a measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services."

3) W.M. Harper :

"A cost is the value of economic resources used as a result of producing or doing the things."

Thus, cost is a normal sacrifice of resources in the creation of a product or rendering a service.

1.1.2 Costing:

Costing is the techniques and processes of ascertaining costs. These techniques consist of principles and rules which govern the procedure of ascertaining cost of products or services. The trading and profit and loss account of a business is designed to disclose the financial results of the collective activities of the business. Expenditure in total is set against total turnover or income, but no detailed information is available for the factors leading to the profit or loss. Total turnover may comprise many varied activities, departments, processes, jobs, contracts etc.; some of which may be profitable, while others are being conducted at a loss.

1.1.3 Cost Accounting & Cost Accountancy:

Cost accounting may be regarded as a specialised branch of accounting which involves classification, accumulation, assignment and control of costs. Cost accounting is different from costing in the sense that the former provides only the basis and information for ascertainment of costs. Once the information is made available, costing can be carried out arithmetically by means of memorandum statements or by method of integral accounting

A) Meaning:

Cost Accounting is the classifying, recording and appropriate allocation of expenditure for the determination of the costs of products or services and for the presentation of suitably arranged data for the purposes of control and guidance of management, Cost accounting.

includes the calculation of cost of every product, job, section, department, process, service. Cost accounting is the method of accounting for cost. All the costs incurred from the very beginning of manufacturing operation till the final stage of disposal of goods find their recording and accounting in cost accounting.

B) Definitions:

Definitions of Cost Accounting are as follows:

1) Wheldon :

"Cost Accounting is the application of accounting and costing principles, methods and techniques in the ascertainment of costs and the analysis of variances as compared with standards or previous experience."

1.1.4 Management Accounting :

Meaning and Definition of Management Accounting are as follows:

A) Meaning:

The term "Management Accounting", observe, Broad and Carmichael, covers all those services by which the accounting department can assist the top management and other departments in the formation of policy, control of execution and appreciation of effectiveness. This definition points out that management is entrusted with the primary task of planning, execution and control of the operating activities of an enterprise a general, a successful management too strives to outstrip other competitors in the field by streamlining its operating efficiency. It needs a thorough knowledge of the situation and the circumstances in which the firm operates. Such knowledge can only be gained through the processed financial data rendered by the accounting department on the basis of which it can take policy decision regarding execution, control, etc.

B) Definitions:

Management Accounting has been defined by different authorities. Following are some of its definitions :

1) J. Batty:

"Management Accounting is the term used to describe the accounting methods, systems and techniques which coupled with special knowledge and ability, assist management in its task of maximising profits or minimising losses."

2) Anglo-American Council on Productivity:

"The presentation of accounting information in such a way as to assist management to the creation of policy and in the day-to-day operation of an undertaking."

3) Robert N. Anthony :

"Management Accounting is concerned with accounting information that is useful to management."

1.1.5 Cost Accounting and Financial Accounting :

Cost Accounting and Financial Accounting are the branches of basic process of accounting. Both the systems are concerned with systematic recording, classifying, summarising, analysing and presentation of business information to the interested parties. Both pass the entries from the same source of documents. Both have merits and demerits. But they serve different purposes altogether. Cost Accounting is much more detailed than financial accounting as the cost accounting ascertains the business results for various parts of the business while financial accounting do the same for the business as a whole.

1.2 Limitations of Financial Accounting:

Cost Accounting has been developed due to limitations of Financial Accounting. Financial Accounting suffers from certain limitations. These limitations are summarised as follows:

1) Shows only Overall Performance:

Financial accounting provides information about profit, loss cost etc. of the collective activities of the business as a whole. It does not give data regarding costs by departments, products, processes and sales territories.

2) Historical in Nature:

Financial accounting is historical, since the data are summarised only at the end of the accounting period. There is no system of computing day-to-day cost and also computing predetermined costs.

3) No Performance Appraisal :

In financial accounting, there is no system of developing norms and standards to appraise the efficiency in the use of materials, labour and other costs by comparing the actual performance with what should have been accomplished during a given period of time.

4) No Material Control System:

Generally, there is no proper system of control of materials, which may result in losses in the form of obsolescence, deterioration, excessive scrap and misappropriation.

5) No Labour Cost Control:

In Financial Accounting, there is no system of recording loss of labour time i.e. idle time. Labour cost is not recorded by jobs, processes or departments and as such no system of incentives may be easily used to compensate workers for their above standard performance.

6) No Proper Classification of Costs:

In Financial Accounting expenses are not classified into direct and indirect, fixed and variable and controllable and uncontrollable.

7) No Analysis of Losses :

Financial accounting does not fully analyse the losses due to idle time, idle plant capacity, insufficient labour, sub-standard materials etc. Thus, exact causes of the losses are not known.

8) Inadequate Information for Price Fixation:

Costs are not available as an aid in determining prices of products, services or production orders.

9) No Cost Comparison:

Comparison is the foundation of modern management control. But financial accounting does not provide data for comparison of costs of different periods, different jobs or departments or sales territories.

10) Fails to Supply useful Data to Management: .

Financial accounting fails to supply useful data to management for taking various decisions like replacement of labour of machines, introduction of new products, make or buy, selection of the most profitable product mix etc.

1.3 Objectives of Cost Accounting

There is a relationship among information needs of management, cost accounting objectives, and techniques and tools used for analysis in cost accounting. Cost accounting has the following main objectives to serve:

1) Determining Selling Price :

The objective of determining the cost of products is of main importance in cost accounting. The total product cost and cost per unit of product are important in deciding selling price of product. Cost accounting provides information regarding the cost to make and sell product or services.

2) Controlling Cost:

Cost accounting helps in attaining aim of controlling cost by using various techniques such as Budgetary Control, Standard costing, and inventory control. Each item of cost [viz. material, labour, and expense] is budgeted at the beginning of the period and actual expenses incurred are compared with the budget. This increases the efficiency of the enterprise.

3) Providing Information for Decision-making:

Cost accounting helps the management in providing information for managerial decisions for formulating operative policies. These policies relate to the following matters:

- i) Determination of cost-volume-profit relationship.
- ii) Make or buy a component
- iii) Shut down or continue operation at a loss

iv) Continuing with the existing machinery or replacing them by improved and economical machines.

4) Ascertaining Costing Profit :

Cost accounting helps in ascertaining the costing profit or loss of any activity on an objective basis by matching cost with the revenue of the activity.

5) Facilitating Preparation of Financial and Other Statements:

Cost accounting helps to produce statements at short intervals as the management may require. The financial statements are prepared generally once a year or half year to meet the needs of the management. In order to operate the business at high efficiency, it is essential for management to have a review of production, sales and operating results. Cost accounting provides daily, weekly or monthly statements of units produced, accumulated cost with analysis.

1.4 Advantages and Limitations of Cost Accounting:

1.4.1 Advantages of Cost Accounting:

The science of cost accounting has developed primarily to serve the needs of the management. The techniques of cost accounting are the best tools by which management may conduct a business towards profitable operations.

1) Classification and Subdivision of Costs :

In the contrast to a single profit or loss figure supplied by general accounting, the cost accounting classifies costs and income by every conceivable subdivision of the business enterprise. In a good costing system data regarding costs by departments, processes, functions, products, orders, jobs, contracts and services can easily computed.

2) Adequacy or Inadequacy of Selling Prices :

Unit cost of production, administration and sale made possible by cost accounting aids management in deciding the adequacy or inadequacy of selling prices i.e. neither too high detracting business, nor too low resulting in losses to the concern.

3) Disclosure of Profitable Products:

Cost Accounting will disclose activities, departments, products and territories, which bring profit and those that result in losses. Management to determine what products because of profit margin the sales department because of their greater profit margin should emphasize will use this information. What products are unprofitable or less profitable and might be eliminated or lesser sales pressure is given to them.

4) Control of Material and Supplies :

In a good costing system materials and supplies must be accounted for in terms of departments, jobs, units of production or service. This will eliminate altogether or reduce to the minimum misappropriations, embezzlements, deterioration, obsolescence, and losses from defective, spoiled, scrap and out of date materials and supplies.

5) Maintenance of Proper investment in Inventories :

A costing system will help in the maintenance of various inventory items of materials and supplies in line with production and sale requirements. If these quantities are too small, production may stop or sales may be lost. On the other hand, if quantities of such materials and supplies are in excess of the production and sales requirements, too much working capital may unnecessarily tie up in inventories.

6) Correct Valuation of Inventories :

Cost Accounting plays a basic role in the correct valuation of inventories of finished goods, work in process, materials and supplies. The book inventory method (as opposed to physical inventory method) made possible by cost accounting system will involve the operation of the various inventory control accounts in such a manner that the balances of these accounts will be inventory valuations required for periodic financial statements.

7) Whether to Manufacture or Purchase from Outsiders:

Cost records furnish information regarding the cost of manufacturing of different finished parts, which assist management in making a decision whether to purchase these parts from outside manufacturers or manufacture them in the factory.

8) Control of Labour Cost:

Orders, jobs, contracts, departments, processes, or services record cost of labour. In many manufacturing enterprises, daily time reports are prepared showing the number of hours and minutes spent and the wage rate for each worker per job or operation.

9) Use of Company-wide Wage Incentive Plans:

When labour cost is accounted for by jobs and operations, it is possible to use effectively wage incentive plans or bonus schemes for the remuneration of labour force.

10) Controllable and Uncontrollable Cost:

Cost accounting exhibits at each stage of production and sale the controllable and uncontrollable items in the manufacturing, selling and administrative cost thus, enabling management to concentrate attention on those costs, which can be reduced off, eliminated.

11) Use of Standards for Measuring Efficiency:

A complete cost accounting system, generally, has a well-developed plan of standards to measure the efficiency of the organization in the use of materials, incurrence of labour and other manufacturing cost. Cora does this appraisal paring the work of factory workers, office and sales personnel and other executive with what should have done in manufacturing and selling a given quantity of units in a given period.

12) Reduction of Losses Due to Seasonal Conditions:

Cost accounting provides data for making a complete analysis of losses due to idle plant and equipment or due to the use of plant and equipment beyond normal capacity, irregular employment of labour, wastes in the use of materials.

13) Budgeting:

In a good cost accounting system, preparation of various budgets periods in advance of actual production and sale of goods is necessary. These budgets include budgeted statement of profits, budgeted cost of plant improvements, budgeted cost of production, budgeted cash receipts and payments, and so forth.

14) Reliable Check on General Accounting :

Finally, an efficient and proper system of cost accounting is a most reliable and independent check on the accuracy of the financial accounts. This check made effective through reconciliation of the balance of profit or loss shown by the costing profit and loss account and the balance of profit of profit or loss revealed by the general accounting profit and loss account.

1.4.2 Limitations of Cost Accounting:

Cost Accounting is not an exact science like other branches of accounting but is an art, which has developed through theories and accounting practices based on common sense and reasoning. These practices are changing with time.

1) Based on Estimates :

Indirect costs are not charged fully to a product or process. It is charged to all the products and processes on the basis of estimates. Actual cost varies from estimated cost. Due to these limitations, all cost accounting results are taken as mere estimates.

2) Lack of Uniformity :

Procedures of cost accounting followed by different organisations are different for different products. There is no uniformity. There is also possibility of difference in pricing material issues for production. All these leads to different cost results for the same operation.

3) Many Conventions:

There are many conventions for classification of costs, pricing of material issues, apportionment of indirect costs, adoption of marginal or standard cost, etc. These create difficulty in determining the exact cost, because no one type of cost is suitable for all purposes and in all circumstances.

4) Expensive :

Cost accounting is expensive. It involves lots of clerical work for maintaining various costing records for different purposes. For medium and small size concern, the benefit derived from costing system may not justify the cost involved.

5) Result Requires Reconciliation:

Information and results provided by financial accounting and cost accounting may be different for the same activity. This requires reconciliation to find out correctness of the two before taking any decision.

6) Dependent:

It is not an independent system of accounting. It depends on other accounting systems.

7) Does Not include all Items of Expense and Income:

Items of purely financial nature such as interest, financial charges, discount and loss on issue of shares and debentures, etc. are not taken into consideration in Cost Accounting.

8) Not an Exact Science :

Like other accounting system, it is not an exact science but an art that has developed through theories and practices.

1) Difference between Financial Accounting and Cost Accounting:

Difference between Financial Accounting and Cost Accounting below:

Basic	Financial Accounting	Cost Accounting
1) Analysis of Performance	Financial accounts reveal the performance of business as a whole.	Cost accounts show activity-wise/product-wise/ department-wise performance
2) Purpose	The main purpose of financial accounts is to know the profit earned or loss sustained during a particular period and position. of a business concerned on a particular day.	The main purpose of cost accounts is to provide useful information to management to take proper decisions
3) Party to be Served	Financial statements are for shareholder creditors.Government etc. It is more for external users	Cost statements are for, management to take decisions Thus, it is for internal users.

4) Statutory Requirements	These accounts are obligatory as per the Company Act and Income Tax Act.	Cost Accounts are not compulsory for all. They are required to be maintained by those companies for which cost accounting record rules apply. It is based on the products for which the Government order applies.
5) Operating & Non-Operating Transactions	It records both operating and non-operating transactions	It covers only operating. Transactions
6) Period of Reporting	Financial reports (P&L A/C and Balance Sheet) are prepared periodically, usually on annual basis.	Cost statements are prepared as and when required by the management. Reporting is a continuous process. It may be daily, weekly, monthly etc.
7) Format of Presenting Information	Financial accounting has a single uniform format of presenting information i.e. Profit and Loss Account and Balance Sheet and Funds Flow Statements.	Cost Accounting has Varid forms of presenting cost information which are tailored to meet the need of management and thus lacks a uniform format
8) Historical & Predetermined Cost	It is concerned almost exclusively with historical records.	It is concerned not only with historical costs but also with predetermined cost.
9) Control Aspect	It lays emphasis on the recording aspect without attaching any importance to control.	It provides a detailed system of control for materials, labour and overhead costs with the help of standard costing and budgetary control.
10) Valuation of Stock	Stocks are valued at cost or market price whichever is less.	Stocks are valued at cost
11) Audit	Accounts have to be audited every year.	Only those accounts are subject to cost audit, to be audited every year.
12) Appointment of an auditor	The shareholders in the general body meeting appoint auditor	Auditor is appointed by the directors approved by the Central Government
13) Qualification Auditor	Auditor must be a chartered Accountant.	Auditor must be Cost Accountant; Chartered Accountant may be appointed with prior permission of the government
14) Submission of Audit Report	Auditor should submit the report to the company Infront of general meeting.	Audit report is submitted to central government & board of directors.
15) Secrecy	Audit Report is open to public & is not Secret document.	Audit Report is not open to public & is Secret document.

2)Financial Accounting and Management Accounting

Basic	Financial Accounting	Management Accounting
1) Party to be served:	It provides accounting information to the external users. however such information is useful internal purposes.	Information is provided to the management i.e. within the for organisation.
2) Frequency of Reports:	It reports to the external parties after the completion of the accounting year.	it reports very frequently to the top management depending year. upon the purpose and the prevailing situation.
3) Contents Of Reports:	Contents are statutorily governed. Matters to be specified in the report are governed by Companies Act, 1956.	Report is prepared as per management requirements. Contents of report depend upon the type of decision which management wants to take.
4) Format of Reports	Financial Accounting reports include Profit and Loss A/c, Director's Report, Balance Sheet and Auditor's Report which are prepared as per the format specified in the sec.209 1 (d) of the Companies Act, 1956.	There is a flexibility in the form and content of reports. Reports are prepared depending upon the requirements, suitability and convenience.
5) Unit of Study:	They cover overall performance of the company	These reports concentrate on the detailed study of a segment, division, product or activity, etc.
6) Objectivity	: These reports are objective ones. It means, they contain such entries which are supported by evidences such as documents, deeds, agreements, invoices, vouchers, etc. They lay greater emphasis on the objectivity of data	No such rigid objectivity is required in the case of managerial reports. They may include both the objective and subjective figures. Past estimates and projections therefrom may be a part of these reports. Here, emphasis is on relevancy and flexibility of data.
7) Presentation of Reports:	It is mandatory under the provisions of Sec. 209 (1), 210 (1) and 216,217 of the Companies Act, 1956.	It is not a legal requirement. They are prepared to provide data to help management in decision making
8) Principles:	Generally Accepted Accounting Principles govern these reports	No such principles are applicable

9) Auditing of reports:	These statements are subject to statutory audit	No such audit requirements are imposed
10) Publication:	The annual reports are to be prepared and published for circulation among the external end users such as shareholders, investors, bankers, debenture holders, creditors, etc	These reports are circulated among the managerial personnel and they are not published.

3) Cost Accounting and Management Accounting

Points	Cost Accounting	Management Accounting
1) Primary Objective:	It aims at cost ascertainment of goods/services It lays stress on the stage-wise computation of cost.	Management Accounting aims. at the presentation of the cost data to the extent required, together with other relevant information.
2) Time Factor:	Here, costing is a statutory the requirement u/s 233B. Time factor plays a vital role. Reports. have to be submitted as specified in the Act.	There is a flexibility in timing of reports. It is subject to management requirements
3) Governing Principles/ Rules, etc	Cost Accounting Record Rules Cost Accounting Report Rules and guidelines issued by ICWAI have to be followed.	There is no such rigidity. The procedures, format of reports vary from time to time
4) Statutory verification:	Yes, u/s 233B.	No such statutory verification required. However, management auditor can verify such reports.
5) Information Coverage	It certainly lays emphasis on cost data. It is narrow in the scope.	These reports are wider in the scope. Not only cost but other areas are also covered in these reports.

1.8 Cost Unit and Cost Centre

1) Cost Unit:

Once the cost centre-wise costs are ascertained, the cost of production (goods or services) is to be computed. To do this, it is necessary to decide the measurable unit of output, which is termed in costing as a cost unit. **CIMA, England defines it as “a unit of product, service or time in relation to which cost may be ascertained or expressed.”**

Thus, cost units denote a unit in terms of which goods and services are expressed and therefore, in terms of which costs can be ascertained and expressed. For instance, in the case of Steel industry, its output is measured in terms of tones. In this case, cost unit is 'tone' and therefore, cost per tone of steel is to be computed. The cost per tonne of steel is used as the base for determining or revising the price per tone of steel and to take a number of other decisions. In the same way in a sugar mill, 'tonne' of sugar, in a textile mill 'meter of cloth, in brick works 'one thousand' bricks may be the cost units.

A few more examples of cost units in various industries are given below:

Sr.	Industry	Normal Cost Unit	Remark
1.	Cement	Tonne	Single Cost Unit
2.	Chemicals	Tone, kilogram, liter, gallon etc.	Single Cost Unit
3.	Bricks	1000 bricks	Single Cost Unit
4	Automobiles	Number	Single Cost Unit
5	Bicycle	Number	Single Cost Unit
6	Timber	Cubic foot	Single Cost Unit
7	Mines	Tonne	Single Cost Unit
8	Mines	Soft drinks Crate of 24 bottles or 12 bottles	Single Cost Unit
9	Steel	Tonne	Single Cost Unit
10	Sugar	Tonne	Single Cost Unit
11	Advertising/interiors	Job	Single Cost Unit
12	Gas	Cubic foot/ cubic meter	Single Cost Unit
13	Hotel	Room-day	Composite Cost Unit
14	Hospital	Bed-day or patient-day	Composite Cost Unit
15	Power	Kilo-watt hour	Composite Cost Unit
16	Transport	Tonne kilometre or passenger kilometre.	Composite Cost Unit

2) Cost Centre :

For the purpose of administrative control, the entire organisation is divided into a number of sub-units, which may be in the form of departments, branches, processes or sections. The cost incurred is charged initially to such sub-units, which are known as cost centres. A cost centre is therefore a sub-unit or a segment of an organisation for which costs may be collected separately and used for cost ascertainment and control. **CIMA England has defined cost centre as a "location, person or item of equipment (or group of these) for which costs may be ascertained and used for the purposes of cost control".**

An analysis of above mentioned definition reveals that a cost centre may be in the form of (a) a location (such as, a department, division, section or process) or (b) an item of equipment (such as machine) or (c) a person (e.g. sale man) or a group of these. Costs incurred are allocated to cost

centre initially. It enables to ascertain the cost centre-wise costs. Divisionalisation of organisation into a number of cost centres, therefore, assume importance. The number and size of cost centres differ from one organisation to another depending upon the nature of production activities, size of the organisation, management's informational need etc. Cost centres may broadly be classified as follows:

a) Personal Cost Centre:

CIMA England defines it as a cost centre which consists of a person or group of persons." For instance, a salesman may be considered as a cost centre. By doing so, a company identified items of cost relating to each salesman and it is charged to respective cost centre. For example, cost of goods sold by the salesman, his traveling expenses, his remuneration etc.

b) Impersonal Cost Centre:

It has been defined by CIMA, England as " a cost centre which consists of a location or item of equipment (or group of these)." For examples production department, a machine may be reckoned as a cost centre.

c) Production Cost Centre :

It is that cost centre where actual production work takes place. Examples are: machine shop, melting shop, welding shop, finished shop etc.

d) Service Cost Centre:

The cost centres, which are ancillary to and renders services to production cost centres are known as service cost centres. Examples of these cost centres are power house, tool-room, store department, repair shop, canteen etc. Costs incurred in service cost centres are of indirect type.

e)Operation Cost Centre :

CIMA England, defines it as "a cost centre which of those machines and / or persons carrying out similar operations." It means, all machines and/or persons engaged in the carrying out of similar operations are brought together under one cost centre for the purposes of cost accumulation, ascertainment and control.

f) Process Cost Centre :

It has been defined by CIMA, England as "a cost centre which consists of a specific process or a continuous sequence of operations." A processing concern converts raw material into finished product through several processes. In this case, each process is treated as a cost centre.

1.9 Scope of Management Accounting:

The primary objective of management accounting is to serve the management by providing required data from time to time. Management accounting is not a separate discipline as such. It

makes use of the tools and techniques developed in other branches of accounting viz. Financial Accounting, Cost Accounting, Taxation, etc.

1) Financial Accounting:

This includes recording of all business transactions in the books of accounts. It aims at preparation of Income Statements and Balance sheet. It is mainly for reporting to the shareholders. Hence, financial accounting is treated as part of management accounting system as regards to external reporting. Financial statements such as, P&LA/C, Balance Sheet, Cash Flow and Funds Flow Statements are analysed by management accounting division of the organisation.

2) Cost Accounting :

Cost accounting is a valuable technique employed for :

- i) Cost Ascertainment of products/services rendered by the organisation,
- ii) Cost control and
- iii) Presentation of cost data.

Cost accounting department provides information in the form of various reports. Management accounting division makes wise use of the data generated in the cost accounting department.

3) Forecasting and Budgeting:

This refers to the formulation of budgets and forecasts, using standard norms in co-operation with operating and other departments of a business concern. In large organisations, budgeting activity is regarded as the highly skilled function. future.

4) Cost Control Techniques :

Management accounting department works in co-ordination with costing department of any organisation. Therefore, techniques of cost control such as, 'Standard Costing', 'Variance Analysis', 'Responsibility Accounting' are used by management accountant.

5) Statistical Data :

It is concerned with the supply of necessary statistical data and particulars needed by various departments of the business concern. This includes statistical compilation of case studies, engineering records, minutes of meetings, special surveys and many other business documents.

6) Taxation:

Income tax section of any large organisation has to ensure that all the laws and regulations as regards to income tax and other related laws are duly complied with. Management accountant has to guide properly in connection with tax planning for the business.

7) Methods and Procedures

They are concerned with standardisation of methods and procedures in all fields of management for improving efficiency as well as for reducing the costs considerably. This work involves the preparation of Standard Procedure Manuals for various business activities.

8) Reporting:

Periodical accounting statements are prepared and submitted to the top management. Reports of various types have to be submitted to external agencies such as banks and financial institutions. Reporting also includes reporting of non-financial data, such as Machine Hours, Labour Hours, Plant Capacity Utilisation Ratio, etc. This is very vital job performed by Management Accountant of the company.

9) Office Services :

The management accountant is expected to provide office services like data processing, effective communication systems, mail services, printing and stationary services, etc. These services help the staff to run their respective business smoothly and efficiently.

10) Management Controls:

Management accounting covers the area of internal control systems. Procedures and tools like internal check are adopted in accounting and other functional areas to conduct the work efficiently. Internal audit facilitates the work of finalization of accounts and also it keeps a check on accounting staff.

1.10 Role of a Cost Accountant in an Organisation:

A cost accountant in a manufacturing organisation plays several important roles. He establishes a cost accounting department in his concern. He ascertains the requirement of cost information which may be useful to organisational managers at different levels of the hierarchy. He develops a manual, which specifies the functions to be performed by the cost accounting department. Usually, the functions performed by a cost accounting department includes 1) Cost ascertainment, 2) Cost comparison, 3) Cost reduction, 4) Cost control and, 5) Cost reporting

1) Cost Ascertainment :

Cost ascertainment requires the classification of costs into direct and indirect. Further it requires classification of indirect costs (known as overheads) into three classes viz., factory overheads; administration overheads and selling and distribution overheads.

2) Cost Comparison:

Cost comparison is the task carried out by cost accountant for controlling the cost of the products manufactured by the concern. Cost accountant of the concern establishes standards for all the elements of cost and thus a standard cost of the finished product

3). Cost Control analysis :

Cost analysis may also be made by cost Accountant for taking decisions like make or buy and for reviewing the current performance.

4) Cost Reporting:

Cost accountant also plays a key role in the preparation of cost reports. These reports help the executives of a business concern in reviewing their own performance and in identifying the weak areas, where enough control measures may be taken in future.

1.11 Functions of Management Accountant

A management accountant plays a crucial role in an organization by performing various functions to aid in decision-making and strategic planning.

1) Budgeting and Forecasting:

Management accountants are responsible for preparing detailed budgets that outline the financial goals and expectations of the organization for a specific period. This involves estimating future revenues, expenses, and capital needs. Forecasting, a continuous process, involves updating these budgets based on actual performance and changing market conditions.

2) Cost Management:

Effective cost management is crucial for maintaining profitability. Management accountants analyze production costs, identify inefficiencies, and suggest cost-saving measures. This includes monitoring direct costs (such as raw materials and labour) and indirect costs (such as overheads), ensuring that resources are used efficiently and costs are controlled without compromising quality.

3) Financial Reporting:

Management accountants prepare comprehensive financial reports, including profit and loss statements, balance sheets, and cash flow statements. These reports provide insights into the financial health of the organization and are used by internal stakeholders to make informed decisions. Timely and accurate financial reporting is essential for assessing past performance and planning future strategies.

4) Performance Evaluation:

Evaluating the performance of different departments, projects, or products is a key function of management accountants. They use various financial and non-financial metrics to assess efficiency, profitability, and productivity.

5) Strategic Planning:

Management accountants play a vital role in the strategic planning process by providing financial analysis and insights that support long-term decision-making. They help in identifying opportunities for growth, assessing the financial feasibility of strategic initiatives, and aligning financial goals with the organization's mission and vision.

6) Risk Management:

Identifying and mitigating financial risks is a critical responsibility of management accountants. They assess risks related to market fluctuations, credit, liquidity, and operations, and develop strategies to minimize their impact.

7) Investment Appraisal:

Management accountants evaluate potential investment opportunities and capital expenditure proposals to ensure they align with the company's financial goals and provide a good return on investment.

8) Internal Controls:

Establishing and maintaining robust internal controls is essential for ensuring the accuracy and reliability of financial data. Management accountants design and implement control systems to prevent errors, fraud, and non-compliance with regulations

9) Financial Analysis:

Conducting detailed financial analysis is a core function of management accountants. They analyze financial data to support business decisions, such as pricing, product development, and market expansion.

10) Cost Accounting:

Implementing cost accounting systems helps in tracking and allocating costs accurately, providing valuable information for pricing, budgeting, and financial control.