

Introduction to Cost Accounting.

Meaning of Costing :-

The Chartered Institute of Management Accountants (CIMA), London defines Costing as the techniques and processes of ascertaining costs.

Cost Accounting :-

CIMA as defined Cost Accounting as the process of accounting for cost from the point at which expenditure is incurred or committed to the establishment of its ultimate relationship with cost centres and cost units. In its widest usage, it embraces the preparation of statistical data, the application of cost control methods and the ascertainment of profitability of activities carried out or planned.

Cost Accountancy :-

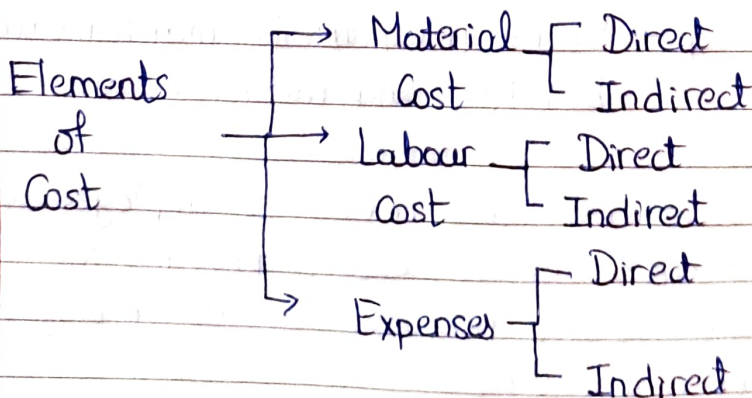
CIMA as defined Cost Accountancy as the application of Costing and Cost Accounting principles, methods and techniques to be science, art and practice of cost control and the ascertainment of profitability. It includes the presentation of information derived therefrom for the purpose of managerial decision-making.

Differences b/w Financial Accounting and Cost Accounting.

Basis	Financial Accounting	Cost Accounting
Scope	Scope of this extends to cover both operating and non-operating activities.	This considers only operating activities for the purpose of preparing cost reports to the interested parties.
Party to be served	It primarily aims at providing information for use by the parties who are external to the company like, shareholders, debenture holders, employees etc.	It aims at providing information for use by the internal parties for taking necessary decisions.
Periodicity / Frequency of reporting	Financial Accounting is normally concerned with the preparation of financial reports at the end of each accounting year.	In Cost Accounting, there is a continuous flow of cost information and other cost reports to different levels of management depending upon their requirements - yearly, half-yearly, quarterly, monthly, weekly etc.
Format of Reports	FA reports which include among others, P/L a/c & BS are prepared in accordance with the format specified in Schedule-III to the Companies Act, 2013.	No such rigidity is found in the case of cost reports. Instead, there is a flexibility in the format depending upon the requirements, suitability and convenience.

Purpose	Financial reports primarily aim at providing information to the external parties for taking decisions by them.	Cost reports are meant for use only by the people who are internal to the company for proper planning, control, decision making etc.
Unit of Study	Annual reports cover the overall performance of the company	Cost reports focus on the study of different segments of the organization such as division, products, activities etc.
Valuation of Stock	Stocks are valued at lower of cost and net realizable value	Under Cost Accounting, stocks are valued at Cost
Publication	Annual reports are prepared and published for circulation among the external parties	Cost reports are, as already identified, meant for circulation among managerial personnel and they are normally not published.

Elements of Cost :-



There are three broad elements of costs, and they are also used as the base to classify the cost items.

(i) Material Cost - denotes the cost of raw material used / consumed in the process of manufacturing and marketing goods and services.

(a) Direct material cost is defined as the cost of material which can be identified with, or attributable to, a cost object.

* It forms a part of the finished product eg., bricks in building construction, cloth in dress making etc.

* It can be measured conveniently.

(b) Indirect cost refers to the materials whose costs cannot be identified with, and attributed to, a specific cost object directly.

* They usually do not form a part of finished product

* Eg:- Stores used in the maintenance of building and machines etc.

(i) Labour cost also called as employee costs or employee benefit costs, represents the wages, salaries, etc, payable to the employees of a corporate entity

(a) Direct labour cost refers to those employee costs which can be identified with

and attributed to, a cost object

* It is normally incurred in the conversion of raw materials into finished goods.

(b) Indirect labour costs refers to the cost or wages which cannot be identified easily with the cost object are called indirect labour.

* Eg:- Salary for repair and maintenance men, men employed in centres.

(ii) Expenses refer to the costs, other than material and labour costs, of other services provided and used in manufacturing & marketing of goods and services of the company.

(a) Direct expenses refer to those expenses which can be identified with and allocated to cost object.

* Eg:-

- cost of hire charges of special plant & machinery

- cost of patent rights and royalty payable in the case mining.

- fees of architects, consultants

(b) Indirect expenses are other expenses, other than indirect material cost, indirect labour cost and prime cost, which cannot be identified easily with the cost object.

* Eg:-

- Depreciation

- Insurance

- Rent

