

Course: B.Com Part III

Paper: V

Topic: Objectives of Cost Accounting

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Cost Accounting

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 purposes of control and guidance of management. It includes the ascertainment of the cost of every order, job, contract, process, service or unit as may be appropriate. It deals with the cost of production, selling and distribution.

It is thus the provision of such analysis and classification of expenditure as will enable the total cost of any particular unit of production or service to be ascertained with reasonable degree of accuracy and at the same time to disclose exactly how such total cost is constituted (i.e. the value of material used, the amount of labour and other expenses incurred) so as to control and reduce its cost.

Main objectives of cost accounting:

1. To ascertain the cost per unit of the different products manufactured by a business concern;

2. To provide a correct analysis of cost both by process or operations and by different elements of cost;
3. To disclose sources of wastage whether of material, time or expense or in the use of machinery, equipment and tools and to prepare such reports which may be necessary to control such wastage;
4. To provide requisite data and serve as a guide for fixing prices of products manufactured or services rendered;
5. To ascertain the profitability of each of the products and advise management as to how these profits can be maximised;
6. To exercise effective control if stocks of raw materials, work-in-progress, consumable stores and finished goods in order to minimise the capital locked up in these stocks;
7. To reveal sources of economy by installing and implementing a system of cost control for materials, labour and overheads;
8. To advise management on future expansion policies and proposed capital projects;
9. To present and interpret data for management planning, evaluation of performance and control;
10. To help in the preparation of budgets and implementation of budgetary control;

11. To organise an effective information system so that different levels of management may get the required information at the right time in right form for carrying out their individual responsibilities in an efficient manner;
12. To guide management in the formulation and implementation of incentive bonus plans based on productivity and cost savings;
13. To supply useful data to management for taking various financial decisions such as introduction of new products, replacement of labour by machine etc.;
14. To help in supervising the working of punched card accounting or data processing through computers;
15. To organise the internal audit system to ensure effective working of different departments;
16. . To organise cost reduction programmes with the help of different departmental managers;
17. To provide specialised services of cost audit in order to prevent the errors and frauds and to facilitate prompt and reliable information to management; and
18. To find out costing profit or loss by identifying with revenues the costs of those products or services by selling which the revenues have resulted.