

Welcome dear students.

Today we're going to cover importance of cost Accounting

Module no. 2 title of the unit is Introduction to  
cost accounting.

The outline of this session is to study importance of cost accounting.

The concept of cost unit, meaning, definition and examples,  
and the concept of cost centre, meaning definition and

classification. At the end of the session you

should be able to list the advantages of cost accounting to

different users such as producers and management

employees, consumers, government, creditors and investors.

You should be able to explain the terms cost, unit and cost

center and differentiate between the two.

Let us begin with the importance and advantages

of cost accounting to the producers and management.

Cost accounting reveals profitable and

unprofitable activities.

Cost data disclose the business units that make profits and non

profitable business units.

From this, the management is able to take decision whether

the non-profit business units should be closed down.

Further, a very important decision whether to make or buy can also be taken on the basis of cost data.

So for example, if a business organization is manufacturing cupboards which needs nuts and bolts, then this nuts and bolts can be either made inhouse or they can be bought from the market.

The cost data can help the management to take a decision whether they should be procured from the market or they should be made in house. If the quantity of the cupboards is very large than, it may be advisable for the company to make this nutballs in the organization itself.

The second advantage to the producers and management is that it helps in fixing the selling price.

A businessman starts and any business with the objective of making profit.

In order to earn profit he has to fix the selling price.

And cost data enables the management to know.

the cost of the production. To this cost of the production when he adds his profit margin, the owner can fix the selling price of the product.

Cost accounting eliminates wastages and inefficiencies.

There are several areas.

in the organization where there may be wastages or inefficiency.

Cost data detects these areas of inefficiencies and wastages.

There may be various reasons for this, like buying of raw

Material at higher price, substandard raw material or

wastage of raw material or inefficient workers

or unskilled workers, and so on.

Once the management comes to know about these reasons, they

will analyze these reasons and they will take corrective action

and in the future they will.

Plan accordingly.

Cost reduction and cost control is one of the

advantages of cost accounting. Cost data disclose the areas of

inefficiencies.

When these areas are disclosed.

The corrective steps are taken by the company, which helps to

reduce the cost of production for the company

. Different techniques of cost

accounting like standard costing, budgetary control,

etc. are adopted where actual cost is compared with the.

Standard cost and if there are any deviations, the reasons are found. If the actual cost is more than the standard cost, then the company will try to analyze the results and corrective steps will be taken. In this manner Company tries to control its cost.

Provides reliable data for comparing costs. The cost data that is provided to the Management, it is able to compare the cost over the period of time, say for example in 2018 to produce a chair Raw material required was of Rs.3000 in 2019 the same raw material Costs Rs. 4,000. Cost accounting

Provides reliable data for comparing costs.

Management is able to compare the cost over the period of time from this cost data.

Simple example, in 2018, raw material consumed for a wooden chair was rupees 3000 and in 2019, when the same chair was manufactured.

Requires raw material of 4,000 that is, there is increase in the cost of Raw material by 33.33%

Now, why this increase has happened can be found out by the management and they can take corrective action on this. This

is possible because of comparison of the cost data over a period of time.

Further, the company also is able to compare its cost with the other company within the same industry.

It provides information upon which estimates and tenders are based. Normally in case of big contracts, big jobs tenders quotations are invited. And this quotations and tenders can be submitted by the company on the basis of past data.

Previous cost which is incurred for similar jobs or contracts.

Now, we'll move on to the advantages to the employees.

Like businessmen starts his business for the purpose of making profit. Employees are also interested in their salary package, working conditions, bonus etc. When companies efficiency increases, its profitability also increases an

Employees can get higher pay and more bonus.

Advantages to the consumers

when the cost accounting system is in place.

The efficiency of the

organization is enhanced and efficiency of the organization

is enhanced. The cost is reduced and when cost is reduced. This

benefit is passed on to the consumer because the prices of the product will be less.

Advantage to the government, the major source of.

Revenue to the government is from the taxes.

It could be direct taxes or indirect

. taxes. When the

cost accounting system is in place naturally, there is efficiency in the organisation which leads to

more productivity resulting into more turnover further resulting into

More profit and thereby government is able to collect its revenue from

direct tax as well as from indirect tax from the company.

And the last benefit to the creditors and investors,

creditors and investors are interested in sound financial

position of the company they're interested in. Credit worthiness

of the company so that they get their payments on time. When

costing system is in place in the company. More and more

investors will be attracted towards the company.

May we move to the next concept.

It is cost unit..

Cost unit is the device for the purpose of breaking up the cost

into smaller subdivisions attributable to products and

services. So the total cost is broken down into smaller

subdivisions. In order to make recovery of the cost that has

been already incurred. For Example, in case of textile

industry, the cost unit is per metre.

In case of automobile industry, cost unit is per car.

In case of gold, cost unit is per gram.

The definition.

Of cost unit is a quantitative unit of product or service or

time in relation to which costs

are ascertained. . Now there are two types of cost units, single,

cost unit and composite cost units. Single cost unit is

normally used in manufacturing industry. Composite cost unit is

normally used in service industry. Let us have a look at

this table. which describes the.

Cost unit for different

Industries. For example, in case of furniture industry and automobile

Industry, It is the number.

In case of cable it is meter or kilometer. In case of Brick works the cost is determined. for 4000 bricks, for mines and quarries or still industry cost unit per tonne.

For textile industry cost unit is meters and yards.

In case of service organizations, a composite cost

unit is used.

For example, in transport industries, in case of goods

career, it is the per tonne per kilometer for goods .

Carried as well as distance covered in case of passenger

vehicles for passengers per passenger per kilometer. in case of hospitals per

Patient per bed and so on.

Let us now move on to the next. That is cost center. The definition of

cost center is.

A location, person, or item of equipment or group of this for

which cost may be ascertained and used for the purpose of control.

Normally cost center is different from the cost unit.

However, in case of contract costing, cost center and cost unit is the

same. This is because cost center means where we incur the

cost in case of contract, We incur the cost for each

individual contract and we recover the cost from each

individual contract so cost is measured for that particular

individual contract. And because of that, in case of contract,

cost center and cost unit is the

same. Cost centers are classified as personal cost

center, which consists of a person or group of persons.

Impersonal cost center, which consists of a location or an

item of equipment or group of

this. Production cost centers. These are the cost centers which

are actually engaged in making the products in this cost centers. Raw materials are handled and they are converted into the finished product. Machine Shops, welding shops, and assembly shops. These are the examples of production cost centers. In an engineering factory, cost center is service cost center.

Which do not make the products but are necessary aids to the production centers. These are the supporting units to the production cost Center. administration, repairs and maintenance stores are examples of service cost centers.

Thank you.