Simplified Approach
To

COSTING THEORY

For CA-IPCC / PCC

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CONTENTS

CHAPTER 1

BASIC CONCEPTS

Definitions

COST

- ✓ It is the **expenditure** incurred for **producing the product** or rendering the **service**. *(ie. Actual or notional amount of expenditure attributable to a specified product or activity)*
- ✓ It should be expressed from **Manufacturers' point** of view (and not from customer's point of view).
- ✓ Cost ascertainment is based on **uniform principles** and techniques

COSTING

CIMA, England defines costing as "techniques and processes of ascertaining cost."

- ✓ The process of **accounting** for cost
- ✓ **Begins** with the **recording** of income and expenditure
- ✓ **Ends** with the preparation of periodical statements and **reports**
- ✓ Aids to ascertain and **control costs**.

COST ACCOUNTING

- CIMA defines 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 the profitability of activities carried out or planned."

- Shilling law has defined cost accounting as "the body of concepts, methods and procedures used to measure, analyse or estimate costs, profitability and the performance of individual products. Departments and other segments of as company's operations, for either internal or external use or both, and to report on these questions to the interested parties."

Cost Accounting = Costing + Application of cost control methods + Ascertainment of Profitability.

COST ACCOUNTANCY

CIMA has defined cost accountancy as "the application of costing & cost accounting principles, methods & techniques to the science, art & practice of cost control and the ascertainment of profitability. It includes the presentation of information derived therefrom for the purpose of managerial decision-making."

- ✓ It is the application of costing and cost accounting principles, methods and techniques
- ✓ It includes the presentation of information
- ✓ It is for the purpose of managerial decision making.

OBJECTIVES OF COST ACCOUNTING

(May 2008)

(i) Ascertainment of cost
   a. Post Costing
   b. Continuous Costing
(ii) Determination of selling price
(iii) Ascertaining the profit of each activity
(iv) Cost control
(v) Cost reduction.
(vi) Assisting management in decision-making.

COST REDUCTION

- ✓ It is the achievement of **real and permanent reduction** in the unit cost of goods manufactured or services rendered
- ✓ **Without impairing** their suitability for the use intended or diminution in the **quality** of the product."

Three-fold assumptions in cost reduction

(i) There is a **saving** in unit cost.
(ii) Such saving is of **permanent nature**.
(iii) The utility and **quality** of the goods and services remain **unaffected**, if not improved.

SCOPE OF COST REDUCTION: (May 2007)

- ✓ It is attainable in almost all areas of business activities.
- ✓ It covers a wide range like new layout, product design, production methods, materials and machines in factories as well as in offices, innovation in marketing etc.
- ✓ It also covers activities like purchasing, handling packaging, shipping, warehousing, use of administrative facilities and even utilization of financial resources.
- ✓ If Two or more products are produced and managed together, the result of combined efforts are higher than sum of the results of individual products. Analysis of synergetic effect is helpful in cost reduction.

DIFFERENCE BETWEEN COST REDUCTION AND COST CONTROL

(Nov.2007)

COST REDUCTION	COST CONTROL
▪ Real & permanent savings in cost	▪ Temporary savings also
▪ Saving in cost per unit	▪ Saving either total cost or cost per unit
▪ Quality of the product remain unaffected	▪ Quality of the product is not guaranteed
▪ Dynamic approach	▪ Lack of dynamism
▪ Value engineering, Market research, Job evaluation & Merit rating are tools for cost reduction	▪ Standard costing & Budgetary control are tools for cost control
▪ It can be achieved by way of continuous process of critical examination	▪ It's achieved through compliance with standards.
▪ Corrective Function	▪ Preventive Function

STEPS FOR CONTROLLING THE COST

- Determine the clear-cut objective, (i.e., pre-determine the desired results)
- Evaluate the actual performance
- Investigate Variation in actual performance with planned one &
- Initiate corrective action.

IMPORTANCE OF COST ACCOUNTING TO BUSINESS CONCERNS

(i) Control of material cost
(ii) Control of labour cost
(iii) Control of overheads
(iv) Measuring efficiency
(v) Budgeting
(vi) Price determination
(vii) Curtailment of loss during the off-season
(viii) Expansion
(ix) Arriving at decisions

ADVANTAGES OF A COST ACCOUNTING SYSTEM

a) To identify unprofitable activities;
b) To apply
   - Cost reduction techniques,
   - Operations research techniques and
   - Value analysis technique.
c) To achieve the objective of economy in concern's operations.
d) Aid to Continuous efforts for finding new and improved methods for reducing costs.
e) To identify the reason for decrease in the profit of the business.
f) To identify unprofitable products or product lines so that these may be eliminated.
g) To provide information and data to the management to serve as guides in making decisions.
h) To provide necessary Guidance on
   - Make or Buy decision,
   - whether to accept orders at below their cost
   - which machine to purchase if more than one choices are available.
i) Aids to price fixation.
j) It serves as a guide to test the adequacy of selling prices.
k) The use of cost accounting technique viz., variance analysis,
l) It helps in cost control.
m) It provides figures for the use of Government, Wage Tribunals and other bodies;
n) It helps to work out the cost of idle capacity.

ESSENTIAL FACTORS FOR INSTALLING A COST ACCOUNTING SYSTEM

(Nov.'99)

FACTORS

- The Objective of the system.
- Scope and extent of coverage.
- The general organizational set up of the business.
- The technical aspects of the concern.
- The attitude and behaviour of the people in the organization (Psycho Social Aspects).
- The manner in which different variable expenses would be affected with the expansion or cessation of different operations.
- The manner in which Cost and Financial Accounts could be inter - locked into a single integral accounting system.
- The maximum amount of information that would be sufficient (Information Requirements)

PRACTICAL DIFFICULTIES WHILE INSTALLING A COSTING SYSTEM

(May 2002)

i) Lack of support from top management.

ii) Resistance from accounting staff.

iii) Lack of co-operation at the operating levels.

iv) Shortage of trained staffs.

v) Cost of the operating systems.

ESSENTIAL FEATURESOF A GOOD COST ACCOUNTING SYSTEM (Nov. 2005, May 2008)

- Cost Accounting System should be tailor-made, practical, simple and capable of meeting the requirements of a business concern.
- The data to be used by the Cost Accounting System should be accurate; otherwise it may distort the output of the system.
- Necessary cooperation and participation of executives from various departments of the concern is essential for developing a good system of Cost Accounting.
- The Cost of installing and operating the system should justify the results.
- The system of costing should not sacrifice the utility by introducing meticulous and unnecessary details.
- A carefully phased programme should be prepared by using network analysis for the introduction of the system.
- Management should have a faith in the Costing System and should also provide a helping hand for its development and success.

Features:

i. It should be **tailor-made;**
ii. Collected Data should be accurate;
iii. Cooperation from all other departments
iv. Cost & Benefit should match
v. It should not sacrifice the utility by unnecessary details
vi. Usage of network analysis
vii. Faith & Confidence

VARIOUS REPORTS THAT MAY BE PROVIDED BY THE COST ACCOUNTING DEPARTMENT

(Nov.2006, 2007)

- Cost Sheets
- Statements of material consumption
- Statements of labour utilisation
- Overheads incurred compared with budgets
- Sales effected compared with budgets
- Reconciliation of actual profit with estimated profit
- The total cost of inventory carried
- The total cost of abnormally spoiled work in factory and abnormal losses in stores
- Labour turnover statements
- Expenses incurred on research & development compared with budgeted amounts.

COST CENTRE

(Nov.2002)

It is defined as a

- location,
- person or
- an item of equipment or
- group of these

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

TYPES:

1. **Personal** Cost Centre or **Impersonal** Cost Centre
2. **Production** Cost Centre or **Service** Cost Centre

Personal Cost Centre consists of a person or group of persons. ***Impersonal cost centre*** consists of a location or an item of equipment (or group of these).

Cost Centre	***Type***
Location	Impersonal Cost Centre
Person	Personal Cost Centre
Item of equipment	Impersonal Cost Centre

In a manufacturing concern there are two main types of Cost Centres are:

(i) ***Production Cost Centre:*** It is a cost centre where raw materials are converted into finished product. Here both direct and indirect expenses are incurred.

Eg.: Machine shops, welding shops, assembly shops etc.,

(ii) ***Service Cost Centre:*** It serves as an ancillary unit to a production cost centre.

Eg.: Power house, gas production shop, material service centres, plant maintenance centres, etc.,

COST UNIT

It is a unit of

- Product
- Service or
- Time or
- Combination of these

in relation to which costs may be ascertained or expressed.

Cost units are usually the **units of physical measurement** like number, weight, area, volume, length, time and value.

Examples of cost units:

Industry / Product	***Cost Unit***
Automobile	Number
Cement	Tonne or per bag
Chemicals	Litre or Gallon or Kilogram or Tonne
Power	Kilo-watt hour

Steel	Tonne
Transport	Passenger kilometer or Tonne kilometer
Nursing home	Per bed per day or Per patient per day
Bridge construction	Each contract
Interior decoration	Each job
Bicycles	Each unit
Advertising	Each job
Sugar	Quintal or Tonne
Hotel providing lodging facilities	Room per day

COST CENTRE Vs. COST UNIT (May 2008)

COST CENTRE	COST UNIT
It is defined as a o location, o person or o an item of equipment or group of these for which cost may be ascertained	It is a unit of o Product o Service or o Time or Combination of these in relation to which costs may be expressed.
It may be **Personal** Cost Centre or **Impersonal** Cost Centre / **Production** Cost Centre or **Service** Cost Centre	Cost units are usually the **units of physical measurement** like number, weight, area, volume, length, time and value.
Eg., Each and every production units in a company are called cost centre	Eg., output of the production units are called cost units
In process costing each and every process is called cost centre.	Output of the process are called cost units
In contract costing each and every contract is called cost centre.	The contract itself is a cost unit.

RESPONSIBILITY CENTRE

It is an ***activity centre*** of a business organisation entrusted with a ***special task***.

CATEGORIES:

- ✓ Cost Centres ;
- ✓ Profit Centres ; and
- ✓ Investment Centres ;

(May 2006, Nov. 2008)

PROFIT CENTRES	INVESTMENT CENTRES
Centres which have the responsibility of generating and maximising profits.	Centres which are concerned with earning an adequate return on investment.

IMPORTANT DEFINITIONS

TERMS	Definition / Meaning
DIFFERENTIAL COST (May 2008)	It represents the **change** (increase or decrease) **in total cost** (variable as well as fixed) due to change in activity level, technology, process or method of production, etc. It may be – ○ Incremental or ○ Decremental costs *It represents an increase or decrease in total cost resulting out of:* (a) Producing or distributing a few more or few less of the products; (b) A change in the method of production or of distribution; (c) An addition or deletion of a product or a territory; and (d) Selection of an additional sales channel.
IMPUTED COSTS	These costs are **notional costs** which do **not involve any cash outlay**. These costs are similar to opportunity costs. Eg. Interest on capital the payment for which is not actually made.
OPPORTUNITY COST (May 2003, 2008)	This cost refers to ▪ the value of sacrifice made or ▪ benefit of opportunity foregone ▪ in accepting an alternative course of action i.e., The next best alternative Eg.; If firm financing its expansion plan by withdrawing money from its bank deposits. In such a case the loss of interest on the bank deposit is the opportunity cost for carrying out the expansion plan. ▪ It arises only if the alternatives are available. ▪ It will not form part of books of accounts ▪ It is purely for the purpose of managerial decision ▪ Costs which are useful for the purpose of decision making are called relevant cost. Hence it's a relevant cost
OUT-OF-POCKET COST	▪ It is that portion of total cost, which **involves cash outflow**. ▪ Out–of–pocket costs **can be avoided** or saved if a particular proposal under consideration is not accepted. ▪ This is a short-run concept ▪ It is used in decisions relating to fixation of selling price in recession, make or buy, etc. ▪ Costs which are useful for the purpose of decision making are called relevant cost. Hence it's a relevant cost

SHUT DOWN COSTS	▪ Those costs, which **continue** to be, incurred even when a plant is **temporarily** shutdown. *e.g.* rent, rates, depreciation, etc. ▪ These costs cannot be eliminated with the closure of the plant. ▪ In other words, all fixed costs, which cannot be avoided during the temporary closure of a plant, will be known as shut down costs. ▪ Here we can classify the fixed cost into two types:- a. Avoidable Fixed Cost & b. Unavoidable Fixed Cost.
SUNK COSTS (Nov. 2000, May 2003, 2005)	▪ Historical costs incurred in the past are known as sunk costs. ▪ They play no role in decision making in the current period. ▪ It is a Irrelevant cost For eg., in the case of a decision relating to the replacement of a machine, the written down value of the existing machine is a sunk cost and therefore, not considered.
DISCRETIONARY COSTS (Nov.2008)	▪ Such costs are not tied to a clear cause and effect relationship between inputs and output. ▪ They usually arise from periodic decisions regarding the maximum outlay to be incurred. Eg., advertising, public relations, executive training etc.
COST OBJECT (May 2000)	Item for which a separate cost measurement is required is called cost object. Eg.; product, service, project, customer, brand category, an activity, department, programme etc.,
DIRECT COSTS	▪ Costs which are directly attributable to production of the product or rendering of a service is called direct cost. ▪ These are related to the cost object. ▪ These can be traced in an economically feasible way. Eg. Raw material cost, wages paid etc.,
INDIRECT COSTS	▪ Costs which are not directly attributable to production of the product or rendering of a service are called indirect cost. ▪ These are related to the cost object. ▪ These cannot be traced to it in an economically feasible way. Eg. Supervisor salary.
PRE-DETERMINED COST	▪ It is a cost which is computed in advance before production or starting of operation. ▪ Computation can be done on the basis of specification of all the factors affecting cost.
MARGINAL COST	▪ The amount at any given volume of output by which aggregate costs are changed if the volume of output is increased or decreased by one unit. ▪ Here a unit may be a single article, an order, a stage of production, or a process in a department. ▪ It relates to change in output in the particular circumstances under consideration within the capacity of the concerned organisation.

PRE-PRODUCTION COST (Nov.2000)	▪ The part of development costs incurred in making trial production run prior to formal production. ▪ This term is sometimes used to cover all activities prior to production including research and development, but in such cases the usage should be made clear in the context.
CONVERSION COST (May 2003)	▪ The sum of direct wages, direct expenses and overhead cost of converting raw materials to the finished stage or converting a material from one stage of production to the next. ▪ Conversion cost = Direct wages + Direct expenses + Production overhead. ▪ In some circumstances this phrase is used to include any excess material cost or loss of material incurred at the particular stage of production.
FIXED COSTS (Nov.2004)	▪ Total cost will remain the same irrespective of level of output, where as per unit cost will vary. ▪ These are the costs which are incurred for a period ▪ They do not tend to increase or decrease with the changes in output. ▪ within certain output and turnover limits, tend to be unaffected by fluctuations in the levels of activity (output or turnover). ▪ But Fixed costs tend to change beyond the relevant range. Eg. Rent
VARIABLE COSTS (Nov.2004)	▪ Total cost will vary depending upon the level of output, where as per unit cost will remain the same i.e., costs tend to vary with the volume of activity is called variable cost ▪ Any increase in the activity results in an increase in the variable cost and vice-versa. Eg. Direct labour cost
SEMI-VARIABLE COSTS (Nov.2004)	▪ This is partly fixed and partly variable in nature ▪ These costs contain both fixed and variable components and are thus partly affected by fluctuations in the level of activity. ▪ They are fixed upto a particular volume of production and become variable thereafter for the next level of production. ▪ Hence they are also called Step Costs. Eg. telephone bills, electricity bills etc.

	Fixed cost	Variable cost
Total cost	Remains the **SAME**	**VARY** with output
Per unit cost	**VARY** with output	Remains the **SAME**

	Methods of segregating Semi-variable costs into fixed and variable costs *(May 2000)* (i) Graphical method (ii) High points and low points method (iii) Analytical method (iv) Comparison by period or level of activity method (v) Least squares method ***Advantages of Classification of Costs into Fixed and Variable:*** (a) *Controlling expenses* (b) *Preparation of budget estimates* (c) *Decision making*
NORMAL COST	▪ Cost which is normally incurred at a given level of output under the conditions in which that level of output is normally attained is known as normal cost.
ABNORMAL COST	▪ Cost which is not normally incurred at a given level of output in the conditions in which that level of output is normally attained is known as abnormal cost. ▪ It is charged to Costing Profit and loss Account.
COMMITTED COST	▪ A cost which has been already committed by the management is called committed cost. ▪ It is not useful for decision making. ▪ It's an irrelevant cost.
REPLACEMENT COST	▪ It is a cost at which there could be purchase of an asset or material identical to that which is being replaced or revalued. ▪ It is the cost of replacement at current market price. ▪ It is relevant for decision making ▪ It is a relevant cost.
COST PERIOD	▪ The period to which the cost relates is called cost period. ▪ It is also called control period. ▪ Generally cost period is shorter than the financial period.
RELEVANT COST (Nov. 2007)	▪ Cost which are useful for the decision making purpose is called relevant cost. ▪ Eg. Opportunity cost, Differential cost, Incremental cost, detrimental cost, out of pocket cost etc.,
IRRELEVANT COST	▪ Cost which are not useful for the decision making purpose is called irrelevant cost. ▪ Eg. Sunk cost, committed cost, absorbed fixed overhead, imputed cost etc.,

DIFFERENCE BETWEEN PRODUCT COSTS & PERIOD COSTS (May 2006)

PRODUCT COSTS	PERIOD COSTS
✓ costs which are associated with the purchase and sale of goods is called product cost ✓ In the production scenario, such costs are associated with acquisition and conversion of materials and all other manufacturing inputs into finished product for sale. ✓ Hence, under marginal costing, variable manufacturing costs and under absorption costing, total manufacturing costs (variable and fixed) constitute inventoriable or product costs. ✓ Under the Indian GAAP, product costs will be those costs which are allowed to be a part of the value of inventory as per Accounting Standard 2. *Purposes for computing product costs:* i. Preparation of financial statements ii. Product pricing iii. Contracting with government agencies	✓ Costs which are *not assigned to the products* but are **charged as expenses against the revenue** of the period in which they incurred is called period cost. ✓ All non-manufacturing costs comes under period cost. Eg.: administrative expenses, selling and distribution expenses, etc.

DIFFERENCE BETWEEN IMPLICIT COSTS& EXPLICIT COSTS

(May 2005, 2007,2008)

IMPLICIT COSTS	EXPLICIT COSTS
✓ It is also known as *economic costs.* ✓ It refer to costs which do **not involve any immediate cash payment.** It is *not recorded* in the books of account.	✓ These costs are also known as **out of pocket costs.** ✓ It refers to costs **involving immediate payment** of cash. Eg. Salaries, wages, postage and telegram, printing and stationery, interest on loan etc.

DIFFERENCE BETWEEN CONTROLLABLE COSTS AND UNCONTROLLABLE COSTS

(Nov.2001,2006, May 2008)

CONTROLLABLE COSTS	UNCONTROLLABLE COSTS
✓ Costs which can be **influenced** by the action of a specified member of an organization are called controllable cost.	✓ Costs which **cannot be influenced** by the action of a specified member of an undertaking are known as uncontrollable costs.

✓ Controllable costs incurred in a particular responsibility centre can be influenced by the action of the executive heading that responsibility centre. ✓ **Controllable costs** are the costs which can be influenced and controlled by managerial action, subject to the following factors: i. Time ii. Location iii. Product/output.	

DIFFERENCE BETWEEN COST ACCOUNTING & FINANCIAL ACCOUNTING

COST ACCOUNTING	FINANCIAL ACCOUNTING
i) These accounts are generally kept voluntarily to meet the management's requirement	i) These accounts are kept in such a manner so as to meet the requirements of Companies Act & Income tax Act.
ii) Both monetary & non-monetary transactions are recorded.	ii) Only monetary transaction recorded.
iii) Periodicity of Recording is optional as desired by the management.	iii) Usually at the end of the year.
iv) It provides information to management for proper planning, operation, control & decision making.	iv) It provides information about financial position of the business to owners & outsiders.
v) The costs are broken down on a unit basis in cost accounts.	v) The costs are reported in aggregate in financial accounts.
vi) Stocks are valued at cost.	vi) Stocks are valued at cost or market price which ever is less.
vii) It relates to transactions connected with the manufacture of goods & services & include only those expenses which forms part of production.	vii) Financial accounts relate to commercial transactions of the business & include all expenses viz. manufacturing. Office, selling and distribution etc.,
viii) Cost accounts deal partly with facts & figures & partly with estimates.	viii) Financial accounts deal with mainly actual facts and figures.
ix) It provides a detailed system of control for materials labour & over head costs.	ix) It lays emphasis on the recording aspect without attaching any importance to control.
x) It records the expenditure according to the purpose for which the cost are incurred.	x) It classifies records, & analyses the transactions according to the nature of expenses.
xi) It is only part of financial accounts and discloses P/L of each product, job or service.	xi) Financial accounts disclose the net profit or loss of the business as a whole.

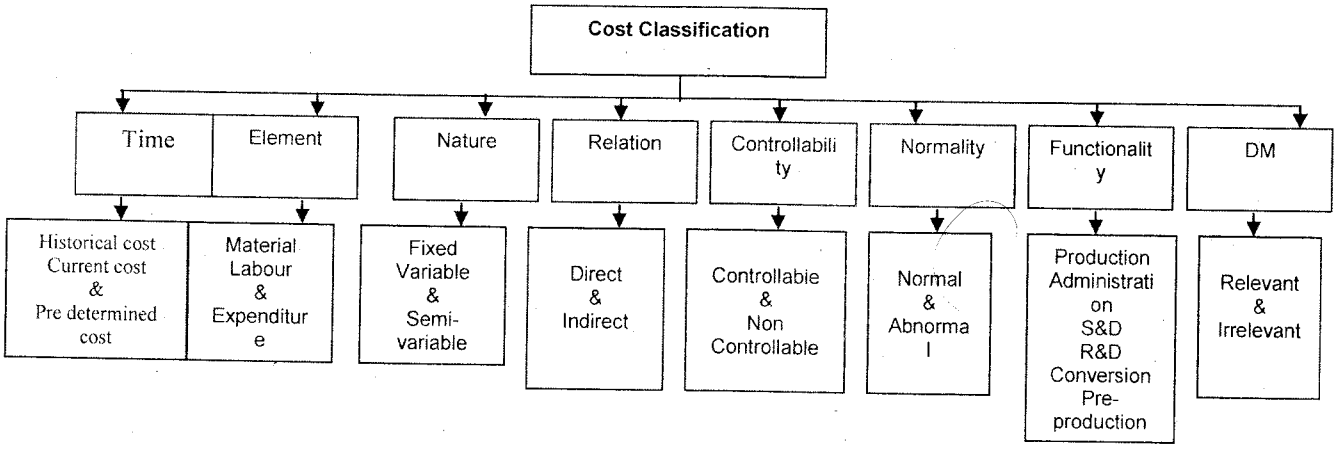
DIFFERENCE BETWEEN COST ACCOUNTING AND MANAGEMENT ACCOUNTING

COST ACCOUNTING	MANAGEMENT ACCOUNTING
i) It provides a base for management accounting	i) It is derived from both cost and financial accounting.
ii) It does not include financial accounting, tax planning & tax accounting.	ii) It includes financial & cost accounting, tax planning & tax accounting.
iii) The status of cost accountant comes after management accountant.	iii) Management accountant is senior in position to cost accountant
iv) It deals with allocation, ascertainment, apportionment & accounting aspect of costs.	iv) It deals with the effect & impact of costs on the business
v) Cost accountant has a narrow approach. He has to refer to economic & statistical data for analyzing cost effects.	v) Management accountant reports the effect of cost on the business along with cost analysis
vi) It lays more emphasis on past and less on future. It means it reports about costs that have already been incurred.	vi) It predicts the future on the basis of past events, present happenings & future estimates.
vii) Though cost reports are meant for management, they are useful even to the external parties.	vii) Management reports are useful only to the management.
viii) It has standard costing, variable costing, breakeven analysis etc. as the basic tool & technique.	viii) Along with these, management accountant has funds & cash flow statements, ratio analysis etc. as his accounting tool and techniques

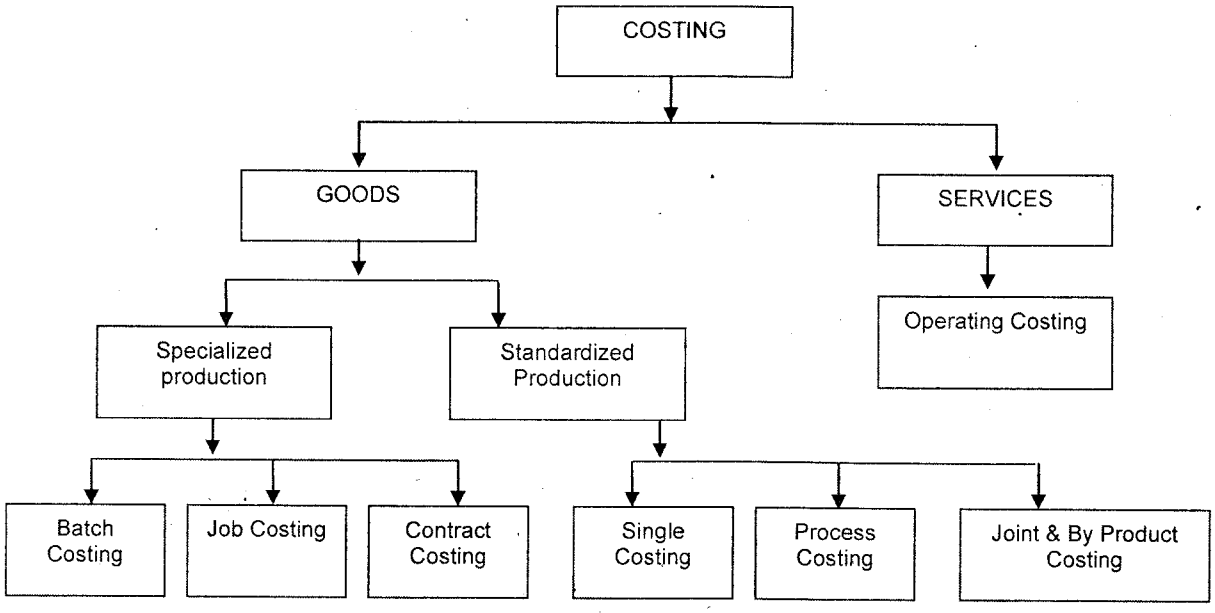
CLASSIFICATION OF COSTS

It means the grouping of costs according to their common characteristics. Basis of classification of cost

1. Time
2. Element
3. Behaviour / Nature / Variability
4. Relationship
5. Controllability
6. Normality
7. Functionality
8. Decision Making



METHODS OF COSTING (Nov.'99)



1. **BATCH COSTING:** This costing is based on the concept of contract costing. This method is used to determine the cost of a group of identical or similar products. The batch costing of similar products is the unit and not single item within the batch. This method can be applied for the production of nuts and bolts, medicines and other items which are manufactured in distinct batches.

2. **JOB COSTING:** This method is used in those concerns where production is carried out as per specific orders and specifications. Each job is separate and distinct from other jobs and products. This method is popular in enterprises engaged in house building, ship building, machinery production and repairs etc

3. **CONTRACT COSTING:** This method of costing, based on the principle of job counting, is used by house builders and civil contractors. The contract becomes the cost unit for which relevant cost are accumulated.

4. **SINGLE OR UNIT COSTING:** This method is used where a single item is produced and the final production is composed of homogeneous units. The per unit costs obtained by dividing the total cost by the total number of units manufactured

5. **PROCESS COSTING:** Under this method of costing, the cost of completing each stage of work is ascertained, like cost of making pulp and cost of making paper from pulp. This method is used in those industries where manufacturing is done continuously like chemicals, oil, gas paper etc.

6. **MULTIPLE COSTING:** This method is used in those industries where the nature of product is complex such as motor cars, aeroplanes etc. In such cases costs are accumulated for different component making the final product and then totalled to ascertain total cost of product.

7. **OPERATING COSTING:** Ascertainment of cost of rendering or operating a service is called " service or operating costing". It is used in case of concerns rendering services like transport, cinema, hotels, etc. Where there is no identifiable tangible cost limit.

Example for method of costing and the cost unit of few industries

INDUSTRY	METHOD	COST UNIT
Toy making	Batch	Per batch
Cement	Unit	Per tonne or per bag
Radio	Multiple	Per radio or per batch
Bicycle	Multiple	Per bicycle
Ship building	Contract	Per ship
Hospital	Operating	Per bed per day / patient per day
Road Transport	Operating	Per Tonne Kilometer
Steel	Process	Per Tonne
Coal	Single	Per unit
Bridge Construction	Contract	Each contract
Interior Decoration	Job	Each Job
Advertising	Job	Each Job
Furniture	Multiple	Each unit
Sugar company having its own sugarcane fields	Process	Per Quintal
Soap	Process	Units
Pharmaceuticals	Batch	Units

ADVANTAGES OF COST ACCOUNTING

Advantages to

Management | Employee | society | Creditor | Government

1. To management	a. Fixation of responsibility b. Measurement of economic performance c. Helps in minimizing wastage and losses d. Facilitating comparison and its analysis e. Fixation of price f. Guidance for future production policy g. Aids in decision making
2. To employee	a. Facilitating good wage policy by merit rating technique which is conducted by scientific process.

3. To society	a. Minimization of cost of production
4. To creditor	a. Increase the confidence of creditor in the capital employed b. Knowing every aspect of production easily by using cost accounting
5. To government	a. Helps in formulating policies regarding taxation, price control measure, wage fixation etc. b. Helps in assessing and preparing national plans. c. Helps in assessing excise duty, income tax, sales tax/VAT etc.,

COST SHEET

The break-up and build-up of cost is called cost sheet.