

MEANING AND DEFINITIONS OF COST ACCOUNTING AND COST ACCOUNTANCY

I. COST ACCOUNTING

Compared with financial accounting, cost accounting is relatively a recent development. Infact, cost accounting started as a branch of financial accounting but now it is regarded as a system in its own right. The vital importance that cost accounting has acquired in the modern age is because of the growth of complexities in modern industry.

Financial information supplied by financial accounting in the form of financial statements stated earlier relate to past activity. But, cost accounting is not restricted to past. It is concerned with the ascertainment of past, present and expected future cost of products manufactured or services supplied. In brief, cost accounting is a system of determining the cost of products or services.

In other words, 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 purpose 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.* material, labour and other expenses) so as to control and reduce its costs. Cost accounting has been defined by some prominent scholars as follows :

1. According to **R.N. Carter**, "Cost Accounting is defined as a system of recording in accounts the material used and labour employed in the manufacture of certain commodity or on a particular job."

2. According to **R.R. Gupta**, "Cost Accounts are a system of accounting where- by expenditure is analysed to find the total cost of each particular unit of production with a reasonable degree of accuracy and to show how much cost is made up."

3. According to **Walter W. Bigg**, "Cost Accounting is the provision of such analysis and classification of expenditure as will enable the total cost of any particular unit of production to be

ascertained with reasonable degree of accuracy and at the same time to disclose exactly how such total cost is constituted."

4. According to **L.R. Dicksee**, "Cost Accounts are accounts supplementary or subsidiary to Financial Accounts and are compiled for the purpose of giving additional information as to the detailed cost of working of an undertaking or any particular section thereof."

5. (a) According to **ICWA (London)**, "Cost Accounting is 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 on or planned."

(b) "Costing is the technique and process of ascertaining costs."

6. According to **Kohler**, "Cost Accounting is that branch of accounting dealing with the classification, recording, allocation summarisation and reporting of current and prospective costs."

7. According to **Wheldon**, "Cost Accounting deals with classifying recording and appropriate allocation of expenditure for the determination of the costs of products or services, the relation of these costs to sales values, and the ascertainment of profitability."

The above definitions reveal the following features of Cost Accounting :

- (i) It is a process of accounting for costs.
- (ii) It is concerned with cost ascertainment and cost control.
- (iii) It records income and expenditure relating to production of goods and services.
- (iv) It establishes budgets and standards so that actual costs may be compared to find out deviations or variances.
- (v) It provides statistical data on the basis of which future estimates are prepared and quotations are submitted.
- (vi) It involves the preparation of right information to the right person at the right time so that it may be helpful to the management for planning control and decision-making.
- (vii) Cost Accounting is the special part of Financial accounting.
- (viii) Total cost or cost per unit of goods manufactured can be ascertained by cost accounting.
- (ix) Under this adequate control is imposed on elements of cost (i.e. material, labour and expenses)
- (x) Under this cost of incomplete work (jobs) is also ascertained.
- (xi) It is complementary of financial accounting.
- (xii) Cost accounting is both science and art.

Cost Account

II. COST ACCOUNTING