

ADVANTAGES OF COST ACCOUNTING

A good system of costing serves the needs of a large section of people. The advantages of costing are discussed below :

I. Advantages to Management

A good system of cost accounting serves the management of any organisation as follows :

1. **Aids in Decision-making** : It helps management in making suitable decisions such as make or buy, replacement of manual labour by machines, shut down or continue operations based on cost reports.
2. **Control on Materials** : This system keeps a good check and control on the purchase, storing and issue of materials. The wastage of materials in the form of spoilage excessive swaps etc. is revealed and controlled.
3. **Control on Machine** : With the help of cost accounting the proper utilisation of machines and plant to the full desired capacity is measured and wastage and idle capacities are controlled.
4. **Control on Labour** : Having good system of cost accounting, the proper recording of labour cost is possible and the idle time, over time and labour turnover remain within limits and the wastage of time too is duly controlled.
5. **Control on Expenses** : Cost accounting helps a lot in the cost reduction programmes together with operation research and value analysis techniques contribute a great deal in economising the costs.
6. **Helps regarding Production Policy** : Marginal costing helps the management in deciding the internal policies of sales, price fixation, increase in production etc. and the differential costing helps to choose the best of two alternatives open to the management.
7. **Helps regarding Investment Policy** : It helps the management to decide the investment policy, whether to invest outside or keep it invested in its own works depends upon the comparison of returns on investment which this system can suggest.
8. **Fixation of Responsibility** : Whenever a cost centre is established, it implies establishing a kind of relationship between superior and subordinates. Thus, responsibilities are fixed on every individual who is concerned with incurrence of cost.
9. **It Measures Economic Performance** : By applying cost control techniques such as Budgetary control and Standard costing, it helps in assisting the performance of business.

10. **Fixation of Price** : By providing cost data it helps management to fix the selling price in advance. Hence, quotations can be supplied to prospective customers to secure orders.

11. **Facilitates Comparison** : Costing always emphasizes on cost comparison. Cost comparison is necessary for cost control. The comparison of costs of jobs, process, cost centres etc. between the two periods or the comparison of costs of different firms under inter firm comparison system, helps to control the cost.

12. **It assists in increasing Profitability** : Costing reports provide information about profitable or unprofitable areas of operation. The management can discontinue that product line or that department which are responsible for incurring losses. Thereby only profitable line of activities alone are retained.

13. **It ascertains the reasons for Profit or Loss** : Cost accounting unveils the mystery of drying profits. It reveals the unprofitable products and unprofitable channels of sales and distribution.

14. **To compare with Standard Cost** : Cost accounting will be of great help if we compare it with standard costing with the help of standard costing and budgetary controls, the optimum level of efficiency is set and compared with actual performances. The variances help the management by exception which means that the management has to keep an eye only on those variances which are below the norms and not to bother for the organisation as a whole.

15. **To find out the means to Increase Efficiency** : Under cost accounting, efforts are made to increase efficiency of workers and machine. Arrangements are made to give proper remuneration to labourers. Time and motion study of labourers are done. Efforts are made to run the machine as per schedule and in proper method.

16. **To Prepare Returns and Reports of the Government** : As all the statistics are available regarding costing, therefore, all reports and returns can be prepared very easily and can be submitted to the government well within the prescribed time. Statement of income tax and other taxes can also be prepared very easily.

17. **To make proper arrangement for Advertisement** : By advertisement trade develops and for the publicity of produced goods, advertisement has been considered as very important factor. If the advertisement has been done in an organised way it increases sales and cost accounting measures that sale and it studies how for advantage can be derived from advertisement.

18. **It Controls the Selling Expenses** : With the help of cost accounting the selling expenses of the previous year can be compared with the expenses of current year and if it is seen that unnecessary expenses have been incurred anywhere that can be controlled.

19. **It removes the shortcomings of Financial Accounts** : Cost accounting has been considered as a helping hand of financial accounts and complementary to it. It tries to remove the shortcomings of financial account.

20. **Reconciliation with Financial Accounts** : A well maintained cost accounting system facilitates reconciliation with financial accounts to check the arithmetical accuracy of both the system.