

PURPOSES OR OBJECTS OR FUNCTIONS OF COST ACCOUNTING

Cost accounting is a very useful tool for business management. It provides a technique for control of manufacturing and business operations. Costing serves number of purposes among which the following are considered to be most important :

1. Ascertainment of Cost : Ascertainment of cost was considered to be the primary objective of cost accounting in the initial stages of its development. However, in modern times this has assumed to be the secondary objective of cost accounting. Cost ascertainment involves the collection and classification of expenses at the first instance. The cost of each product, process, job or operation is ascertained. For this purpose various techniques such as historical costing, marginal costing, etc. may be employed.

2. Cost Control : In past, cost control was considered as secondary objective of cost accounts. But in modern times, it is considered as primary objective of cost accounts because of its utmost importance in all business undertakings. Cost control is exercised through the techniques of budgetary control and standard costing. In these techniques, cost is controlled by comparing actual cost with pre-determined cost. Cost control is becoming increasingly important because of growing competition. These techniques enable the management in knowing the operating efficiency of a business.

3. Determination of Selling Price : Every business organisation aims at maximising profit. Cost accounting provides cost information on the basis of which selling prices of products or services may be fixed. Prices are generally fixed above cost but in certain special circumstances prices of Products may have to be fixed even below total cost. This type of division can be taken only when cost is classified into fixed and variable cost. In periods of depression also, cost accounting guides in deciding the extent to which the selling prices may be reduced to meet the situation.

4. Guide to Business Policy : Cost accounting aims at serving the needs of management in conducting the business with utmost efficiency. Cost data provide guidelines for various managerial decisions like the following :

- (i) Introduction of a new product,
- (ii) Making or buying component parts from outside suppliers,
- (iii) Selling below cost,
- (iv) Utilisation of unused plant capacity,
- (v) Replacement of existing machines by automatic machines.
- (vi) Whether to close or continue operations inspite of losses.

5. Frequent Preparation of Accounts and Other Reports : The management of every business constantly rely upon the reports on cost data in order to know the level of efficiency relating to purchase, production, sales and operating results. Financial accounts provide information only at the end of the financial year because closing stock value is available only at the end of the year. But cost accounts provide the value of closing stock at frequent intervals by adopting a "Continuous Stock Verification" system. Using the value of closing stock it is possible to prepare final accounts and know the operating results of the business.

Other Objects :

- (i) To determine which activities are profitable and which are not.
- (ii) To measure the efficacy of the method of wage payment adopted.
- (iii) To find out the operative efficiency of each department and section.
- (iv) To provide sufficient information for budgetary control.
- (v) To obtain statistical data for formulation of business policies.
- (vi) To present and interpret data for management planning decision-making and control.
- (vii) To find out the source of waste and leakage and thus effect economy in production after eliminating them.
- (viii) To serve as a guide in making estimate and preparing quotations for future.