

# SCOPE OF COST ACCOUNTING

Cost Accounting is an art or process of recording, analyzing and classifying of expenditure for the purpose of product costing or service costing, ascertainment of profitability, operational planning and cost control. It is a forward looking approach which is related to the recording, analyzing and classifying of expenditure with the objective of ascertaining the total and per unit cost of product or service. The scope of cost accounting is very wide and includes the following segments:

## ***COST ASCERTAINMENT***

The sphere of cost accounting comprises cost ascertainment firstly. Cost ascertainment means determining the cost incurred in producing any product. The cost ascertainment includes:

- Collection of expenses
- Analysis of expenses
- Measurement of production

The cost may be ascertained by following ways:

- **Activity Based Costing** in which each activity is taken as fundamental cost object.
- **Unit costing** which is adopted to ascertain the total cost and also per unit cost by making a detailed analysis of different elements of cost.
- **Job Costing** method as per which costs is ascertained for the particular job or work.
- **Batch Costing** which is used when products are produced in batches and cost is ascertained for each batch separately.
- **Contract Costing** is a method of cost ascertainment of a particular contract which is non-recurring in nature. The person executing the contract is known as 'contractor' and the person with whom the contract is executed is known as the 'Contractee'.

- **Process Costing** is a method employed to ascertain the cost of production in industries where a product passes through different processes or stages.
- **Operation Costing** represents the costing in which each cost of each operation involved in an activity is ascertained separately.
- **Composite Costing** is applied to ascertain the cost of complex products manufactured by the manufacturing concerns where no single method of ascertaining cost can be applied.
- **Departmental Costing** is adopted where the factory is divided into several departments and it is desired to ascertain the cost of each department than the whole concern collectively.

## **COST RECORDING**

The scope of cost accounting also includes the recording of the costs. It is the process by which the costs regarding the manufacturing activities are being recorded in the business accounting records. It is a formal mechanism and involves the specialized skills and knowledge of the cost and work accountants. From recording point of view, the costing is of various types:

- **Historical Costing:** The recording of costs after they have been incurred is known as historical costing. It provides the record to the management what has happened and thus is a post-mortem of actual costs.
- **Post Costing:** Under this system, the cost is ascertained after production is completed, by analyzing financial data in such a way as will disclose the cost of the units which have been produced.
- **Continuous Costing:** Under this system, cost is ascertained by recording expenditure and allocating it to production as and when the same is incurred, with the result that cost is ascertained as soon as the job is completed or even in progress.

## **COST CONTROL**

Cost control is the guidance and regulation of the costs by the administration and management authorities. It guides the organization to achieve the target of the undertaking for a given period. Cost control involves the following steps:

- Setting up the targets for expenses and production performance
- Measurement of the actual performance
- Comparison of the actual performance with the standard performance
- Finding out deviations, if any
- Taking corrective actions to remove all the deviations.

Cost control is done by following the various techniques:

- **Marginal Costing:** It is a technique of cost accounting which pays attention to the behavior of costs with changes in the volume of the output.
- **Budgetary Control:** It involves the establishment of budgets relating to the responsibilities of the executives to the requirements of the policy and the continuous comparison of the actual with the budgeted results, either to secure by individual action of that policy or to provide a basis for its revision.
- **Standard Costing:** Standard costing discloses the cost of deviations from standards and classifies these as to their causes, so that management is immediately informed of the sphere of operations in which remedial action is necessary.
- **Variance Analysis:** Variance analysis is a process of analyzing variances by sub-dividing the total variance in such a way that the management can assign the responsibility for off production performance. The main cost variances are: direct material variance, direct labor cost variance and overhead variance.