



# Cost Accounting

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### **Cost accounting Meaning**

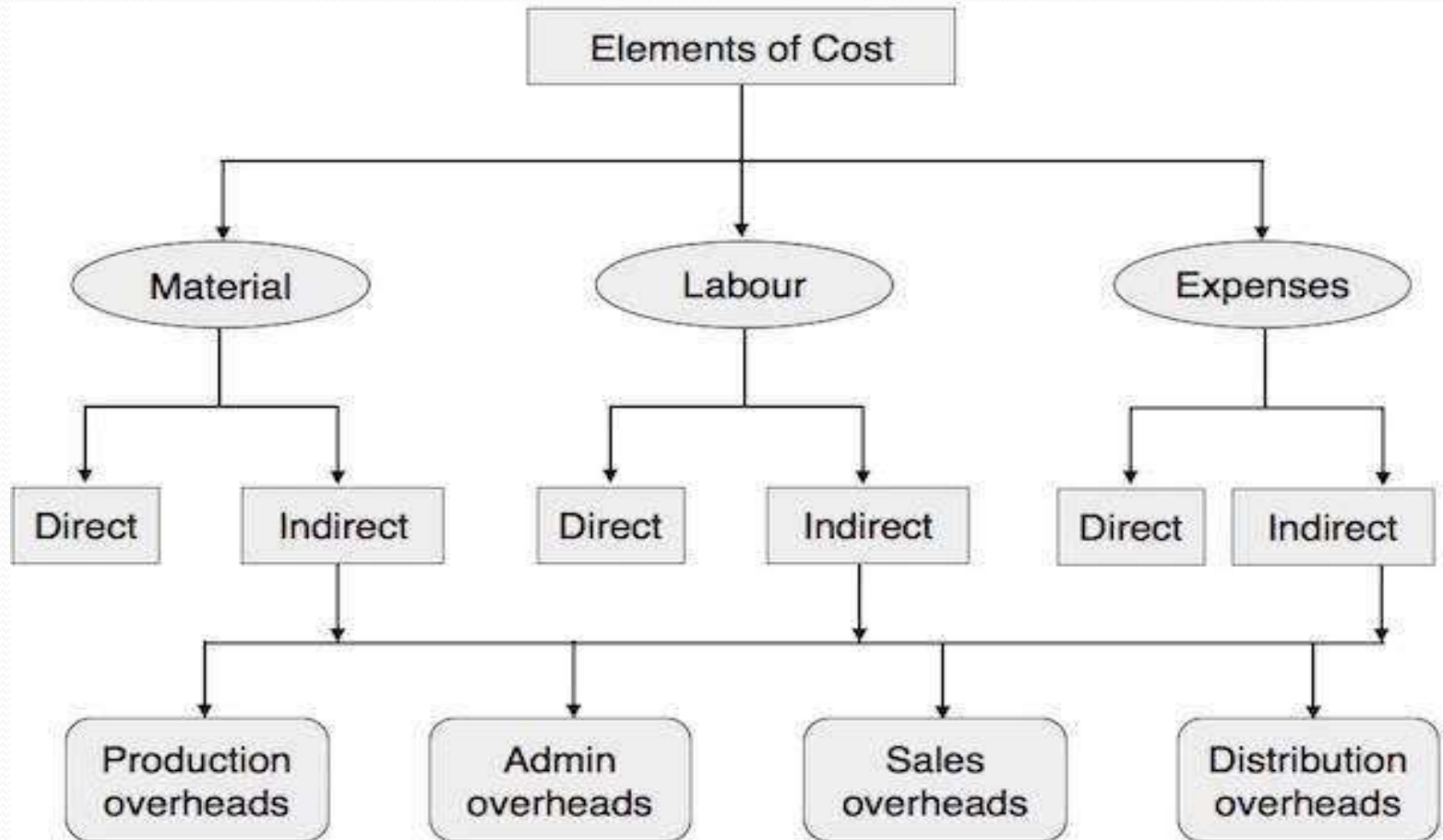
- Cost accounting is the process of classifying recording allocating and reporting the various Costs incurred in the operation of an enterprise. It is the method of accounting for cost .  
The process of recording and accounting for all the Elements of cost is called cost accounting.

# Objectives of cost accounting

- Cost finding or cost ascertainment
- Control of cost
- Reduction of cost
- Fixation of selling price
- Providing information for framing business policy

# Advantages of cost accounting

- Help in decision making
- Help in fixing prices
- Formulation of future plans
- Avoidance of wastage
- Highlights causes
- Reward to efficiency
- Prevention of fraud
- Improvement in profitability
- Preparation of final account
- Facilities control



# Standard Cost



1

**Direct Materials**

2

**Direct Labor**

3

**Overhead**

**Components**

# *Elements of cost Accounting*

- **Direct or Indirect Materials**

The materials directly contributed to a product and those easily identifiable in the finished product are called direct materials. For example, paper in books, wood in furniture, plastic in water tank, and leather in shoes are direct materials. They are also known as high-value items. Other lower cost items or supporting material used in the production of any finished product are called indirect material. For example, nails in shoes or furniture.

- **Direct Labor**

Any wages paid to workers or a group of workers which may directly co-relate to any specific activity of production, supervision, maintenance, transportation of material, or product, and directly associate in conversion of raw material into finished goods are called direct labor. Wages paid to trainee or apprentices does not comes under category of direct labor as they have no significant value.





## Overheads

Indirect expenses are called overheads, which include material and labor.

Overheads are classified as:

- Production or manufacturing overheads
- Administrative expenses
- Selling Expenses
- Distribution expenses
- Research and development expenses



# Types of Cost

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- ❖ Fixed cost
- ❖ Variable cost
- ❖ Marginal cost
- ❖ Actual cost
- ❖ Direct cost
- ❖ Indirect cost
- ❖ Economic cost

# Types of cost

- **Fixed cost:**

Fixed costs are those costs that do not vary with respect to changes in output and would accrue even if no output was produced. E.g. Rent, interest payments, property taxes and employee salaries. However, fixed costs are restricted to specific time frame, since over the long run fixed costs can vary. For example, a manufacturer may decide to expand capacity in tandem to the increase in demand for its product, requiring a higher level of expenditure on plant and equipment.

- **Variable Cost:**

Variable cost changes proportionately to the level of output. For manufacturers, the key variable cost is the cost of materials

- **Marginal Costing:**

Through this method only the variable cost is allocated i.e. direct materials, direct expenses, direct labour and variable overheads to production. It does not include the fixed cost of production.

- **Absorption Costing:**

It is the technique to absorb the fixed and variable costs to production. In this method, full costs i.e. fixed and variable costs are absorbed to the production.

- **Standard Costing:**

When the costs are predetermined on certain standards in a given set of operating conditions, it is called standard costing.

- **Historical Costing:**

In this method the costs are determined in terms of actual costs and not predetermined standard costs. Costs are determined only after it is incurred. Almost all organizations adopt this method of costing.



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