DEPARTMENT OF COMMERCE AND FINANCIAL STUDIES
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MBA (Financial Management)

Course Code and Name: FMCC1/24-ACCOUNTING FOR DECISION MAKING

Unit –V/Topic: RECENT TRENDS IN COST ACCOUNTING

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Recent Trends in Cost Accounting (Content)

-Value Chain Analysis

-Quality Costing

-Target costing-Life Cycle Costing

-Kaizen costing

-Activity Based costing

-International Accounting Standards and

-Indian Accounting Standards-Indian GAAP– IFRS

Value Chain Analysis

- The value chain concept was proposed by Michel Porter. It can be applied to advantage in competitor analysis.
- VCA is a method for assessing the strengths and weaknesses of an organization on the basis of an understanding of the series of activities it performs.
- VCA is a set of interlinked value creating activities performed by an organization.
- These activities may begin with the procurement of basic raw materials, go through its processing in various stages and continue right up to the end products finally marketed to the ultimate consumer.
- It is basically a tool for identifying ways in which value could be created /enhanced by a firm.
- Firms can use this concept for assessing their competitive position within the industry, by comparing their own value chain with those of competitors.

Target Costing

- Target costing is a systematic approach to establishing product cost goals based on market driven standards.
- It is a strategic management process for reducing costs at eh early stages of product planning and design.
- It starts with identifying customer needs and calculating an acceptable target sales price for the product.
- Working backward from the sale price, companies establish an acceptable target profit and calculate target cost.

Life-cycle costing

- Life-cycle costs are all the costs associated with the product for its entire life cycle. They include- Development, production and logistics support.

- Identifying costs during the different phases of a product's life cycle helps to develop understanding of costs and subsequently in managing the costs incurred throughout its life cycle.

- Life cycle costs provide important information for pricing.

Kaizen Costing

- Kaizen costing, also called as the continuous improvement costing, is a mechanism for reducing and managing costs .
- The objective of kaizen costing is to reduce actual costs to manufacture a product below the standard cost. It is used for existing products.

Quality Costing

- An organization strives to improve its performance in a highly competitive environment.

- For that it continuously improving the quality of its products/ services. Quality costing is used as a tool to measure the efficiency of an organization..

Accounting Standards

- Accounting Standards are written policy documents issued the Accounting Body of a country or Govt. or other regulatory bodies covering the aspects of Recognition, Measurement, Treatment, Presentation and Disclosure of accounting transactions in the financial statement.
- The Institute of Chartered Accountants of India (ICAI) is the authority to issue various (AS) Accounting Standards. There are 32 AS issued by ICAI. Important are:-
- AS-1-Disclosure Accounting Policies
- AS-2 Valuation of Inventories
- AS 3-Cash Flow statement
- AS-6 Depreciation Accounting
- AS-10 Accounting for fixed assets

International Accounting Standards

- To promote uniformity in accounting policies throughout the world, Accounting Bodies from various countries have met, discussed and prescribed the International Accounting Standards (IAS) to be followed in all countries of the World.
- On behalf of India, Institute of Chartered Accountants of India (ICAI) has participated and announced various Accounting Stds. to be followed by the Indian companies and firms, based on the International Accounting Standards.

IFRS

IFRS stands for International Financial Reporting Standards. As Foreign Direct Investments are permitted throughout the world, every business must follow the international Accounting Standards. In India, the ICAI- The Institute of Chartered Accountants of India has given the guidelines on the financial reporting as per the IFRS.

GAAP

- Generally accepted accounting principles (GAAP) are the standard framework of guidelines for financial accounting used in any given jurisdiction; generally known as accounting standards or standard accounting practice.
- These include the standards, conventions, and rules that accountants follow in recording and summarizing and in the preparation of financial statements.
- GAAP may be defined as, “The common set of accounting principles, standards and procedures that companies use to compile their financial statements”.
- GAAP are a combination of authoritative standards (set by policy boards) and simply the commonly accepted ways of recording and reporting accounting information.

GAAP

- GAAP (generally accepted accounting principles) is a collection of commonly-followed accounting rules and standards for financial reporting. The acronym is pronounced "gap."
- GAAP specifications include definitions of concepts and principles, as well as industry-specific rules.
- The purpose of GAAP is to ensure that financial reporting is transparent and consistent from one organization to another.
- There is no universal GAAP standard and the specifics vary from one geographic location or industry to another.
- In the United States, the Securities and Exchange Commission (SEC) mandates that financial reports adhere to GAAP requirements.

- The Financial Accounting Standards Board (FASB) stipulates GAAP overall and the Governmental Accounting Standards Board (GASB) stipulates GAAP for state and local government.
- Many countries around the world have adopted the International Financial Reporting Standards (IFRS).
- IFRS is designed to provide a global framework for how public companies prepare and disclose their financial statements.
- Adopting a single set of world-wide standards simplifies accounting procedures for international countries and provides investors and auditors with a cohesive view of finances.
- IFRS provides general guidance for the preparation of financial statements, rather than rules for industry-specific reporting.

ABC (Activity Based Costing)

- ABC is a costing system which focuses activities performed to produce products.
- It is that costing in which costs are first traced to activities and then to products.
- ABC may be defined as "Cost attribution to cost units on the basis of benefit received form indirect activities, e.g., setting up, ordering, assuring quality".
- ABC is a new term developed for finding out the cost. It focuses on the activities as the fundamental cost objects. ABC has the potential to provide information which managers find useful for costing purposes.

ABC (Activity Based Costing)

- It traces costs to areas of managerial responsibility, processes, customers, depts.. besides the product costs.
- ABC improves greatly the manager’s decision making as they can use more reliable product cost data.

Limitations:-

- ABC has numerous cost pools and multiple cost drivers and therefore can be more complex than traditional product costing system. It can prove costly to manage ABC system.
- Some difficulties emerge in the implementation of ABC system, such as selection of cost drivers, assignment of common costs, varying cost driver rates etc.,
- It is not more useful for smaller organizations.

Cost Driver - Types

- A cost driver is an activity which generates cost. It is a factor which casually affects costs.
- Customer demand is considered to be basic cost driver. Without customer demand for products or services, the organization cannot exist.
- To serve customers, managers and employees make a variety of decisions and perform many actions/ activities.
- These decisions and activities, undertaken to satisfy customer demand, drive costs.

There are three types of cost drivers.

1.Structural cost drivers:

These are the fundamental choices about the size and scope of operations and technologies employed in delivering products or services to customers.

2.Oranizational cost drivers:

These influence costs by affecting the type of activities and costs of activities performed to satisfy customer needs.

3.Activity cost drivers:

These are specific units of work/ activities performed to service customer needs that consume costly resources. No.of receiving orders/ No, of purchase orders/ No.of units/set-ups/set up hours/ vendors/No. of employees etc.,

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