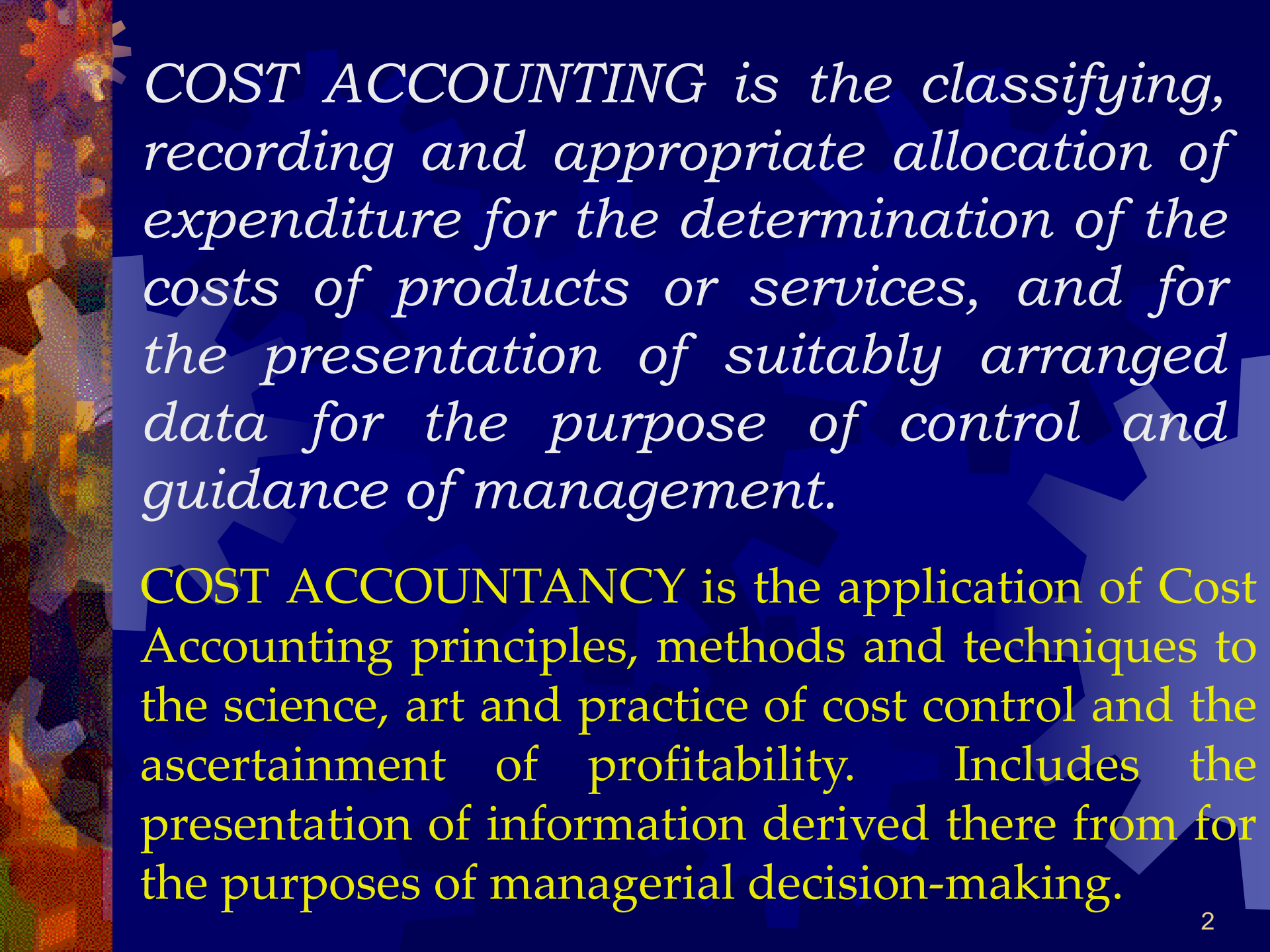


# ***COST AND MANAGEMENT ACCOUNTING***

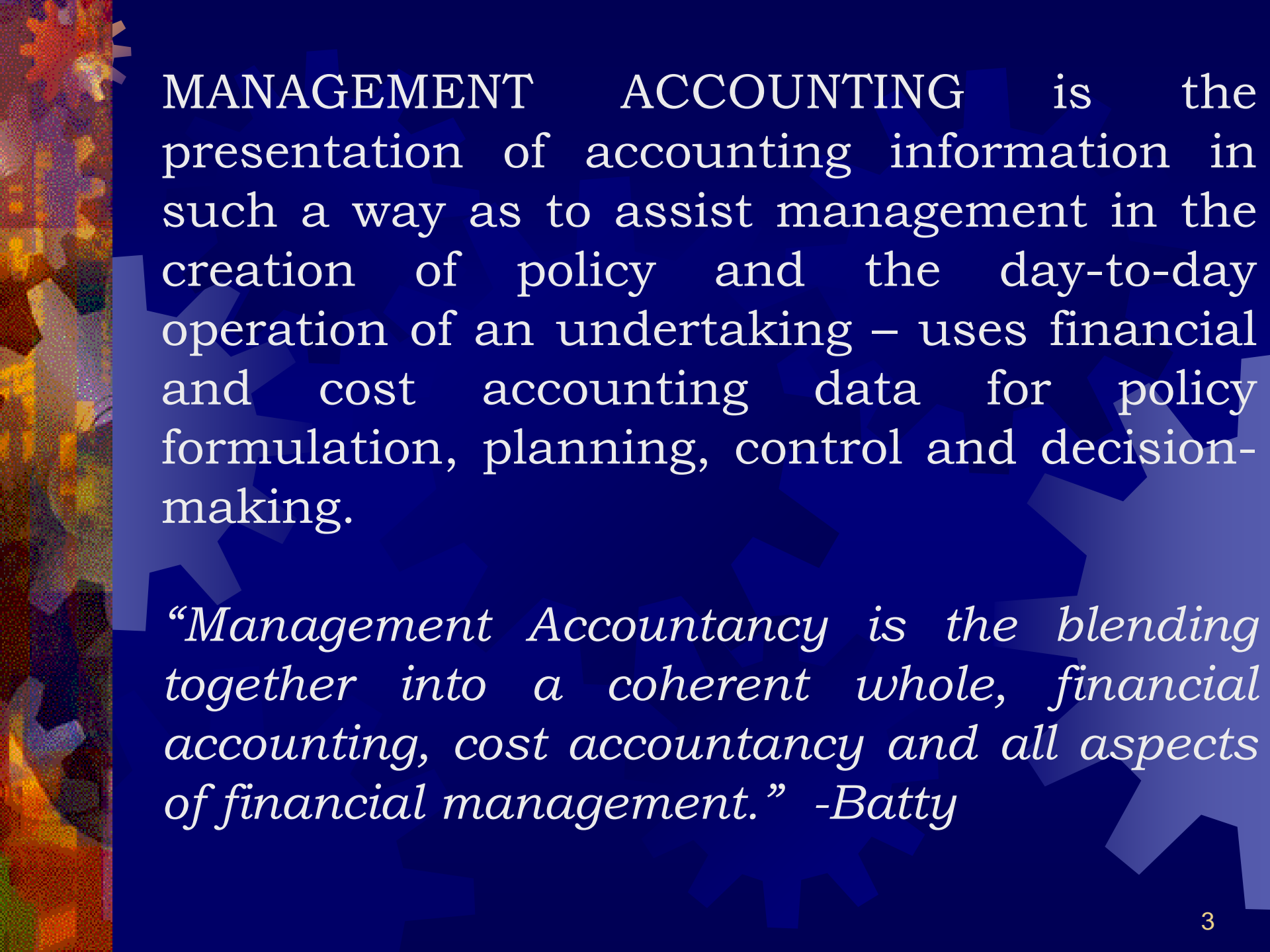
## **METHODS**

**N.LAVANYA LAKSHMI**



*COST ACCOUNTING is the classifying, recording and appropriate allocation of expenditure for the determination of the costs of products or services, and for the presentation of suitably arranged data for the purpose of control and guidance of management.*

**COST ACCOUNTANCY** is the application of Cost Accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability. Includes the presentation of information derived there from for the purposes of managerial decision-making.

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MANAGEMENT ACCOUNTING is the presentation of accounting information in such a way as to assist management in the creation of policy and the day-to-day operation of an undertaking – uses financial and cost accounting data for policy formulation, planning, control and decision-making.

*“Management Accountancy is the blending together into a coherent whole, financial accounting, cost accountancy and all aspects of financial management.” -Batty*

# METHODS OF COSTING

- ☀ JOB COSTING
- ☀ BATCH COSTING
- ☀ CONTRACT COSTING
- ☀ PROCESS COSTING
- ☀ SERVICE OR OPERATING COSTING

# JOB COSTING

*Job costing is suitable where work is undertaken to customer's special requirement and each order is of comparatively short duration.*

## *FEATURES OF JOB COSTING:*

*Production is undertaken after obtaining customer's order.*

*Identity of each order is retained from start to finish.*

*Cost information is collected from each job.*

## Examples of Job Costing:

- ☀ Machine-tool manufacturing
- ☀ Foundries
- ☀ Printing
- ☀ Furniture-makers
- ☀ Repair-shops
- ☀ Garages

# BATCH COSTING

Batch costing is a specific order costing which applies where similar articles are manufactured in batches (either for sale or for use within the undertaking).

## FEATURES OF BATCH COSTING:

- ✿ Reduces overall cost of the product if components are manufactured in batches of large quantity.
- ✿ Costs are collected against each batch.

# SOME AREAS WHERE BATCH COSTING IS USED:

- ✱ Radio manufacturing
- ✱ Television manufacturing
- ✱ Watch manufacturing
- ✱ Pen manufacturing
- ✱ Computer manufacturing



# CONTRACT COSTING

Contract costing is another variation of job costing. It applies where work is undertaken to customer's special requirements and each order is of long duration.

## FEATURES OF CONTRACT COSTING:

- ☐ The contract terminates on its completion.
- ☐ Work is carried out at a site other than contractor's own premises.
- ☐ Most items of cost are directly chargeable.

# SOME BUSINESSES WHERE CONTRACT COSTING APPLIES-

- ❖ Buildings
- ❖ Dams
- ❖ Bridges
- ❖ Ship building
- ❖ Aircraft manufacturing

And other constructional  
work.

# PROCESS COSTING

Process Costing method is applicable where goods result from a sequence of continuous or repetitive operation or process to which costs are charged before being averaged over the units produced during the period.

It is best suitable for organizations where the work cannot be stopped and is continuously performed throughout the year (I.e. 24 hours a day and 7 days a week) except for stoppage for maintenance work.

## *FEATURES OF PROCESS COSTING:*

- *Production is done having a continuous flow of identical products except where plant and machinery is shut down for maintenance, etc.*
- *Clearly defined process cost centres*
- *Product of one process becomes input-material of another process.*
- *Avoidable and unavoidable losses arise at different stages of manufacture for various reasons. Abnormal gain also arises.*
- *Continuous and Mass production, and loss identity of production against particular order*



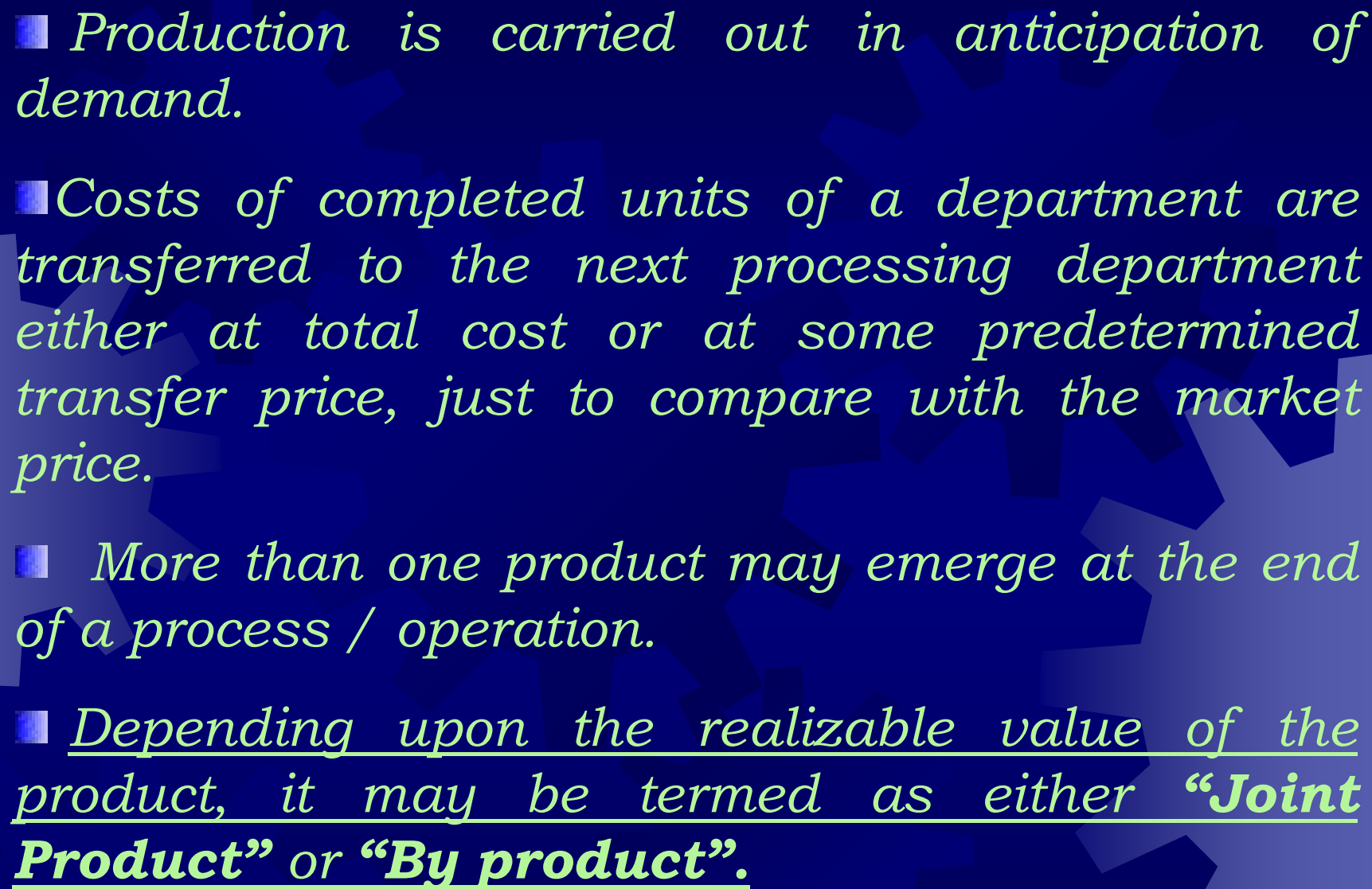
■ Unit cost is computed by dividing total departmental cost by total departmental production including work-in-progress.

■ As production is continuous, work-in-progress shall remain in partly completed stage at the end of each accounting period.

■ Process cost for the period shall be apportioned between completed and incomplete units considering stage of completion of units in work-in-process.

■ Calculation of Effective Units.

■ Loss in the process due to evaporation, scrap, spoilage, chemical reactions, etc., are added to the good units produced.

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- The background features a dark blue field with several large, semi-transparent gears of various sizes. On the left side, there is a vertical strip with a colorful, textured pattern of orange, yellow, and brown, resembling a gear or a mechanical part. The text is presented as a list of four items, each starting with a blue square bullet point.
- *Production is carried out in anticipation of demand.*
  - *Costs of completed units of a department are transferred to the next processing department either at total cost or at some predetermined transfer price, just to compare with the market price.*
  - *More than one product may emerge at the end of a process / operation.*
  - *Depending upon the realizable value of the product, it may be termed as either “**Joint Product**” or “**By product**”.*



## *PROCESS COSTING IS USED IN THE FOLLOWING TYPES OF INDUSTRIES:*

- ◆ *Manufacturing industries-*

*Iron and steel, textiles, chemicals, cement, paper, flour mills, food products, toy making, milk dairies, biscuit manufacturing, etc.*

- ◆ *Mining industries-*

*Coal, Oil, etc.*

- ◆ *Public utility services*

*Generation of Electricity, Gas, Water Supply, etc.*

## NORMAL LOSS

When loss is due to inherent nature of the process, which can be estimated in advance and added to good units produced.

## ABNORMAL LOSS

Loss caused by poor handling of material, bad workmanship, carelessness, bad design, using substantial material, etc., are not normally expected, which are abnormal loss.

## ABNORMAL GAIN

Actual Production may be more than the 'norms' specified. Like Abnormal Loss, Abnormal Gain has no effect on cost of good units.





## VALUATION OF WORK-IN-PROGRESS

The semi-completed units in each process, poses problem for valuation. It is necessary to assess the amount of work done on these units and express them in terms of completed units.

# SERVICE OR OPERATING COSTING

*This method applies to activities that provide a service rather than producing goods.*

*This method may be used for both services to outside customers as well as internal use (in an manufacturing unit, certain sections may provide ancillary services to production department, such as canteen, maintenance, etc.).*

*In this method operating costs are collected periodically.*

## *MAIN FEATURES:*

- Composite cost units are more commonly used than single cost unit.*
- Costs are usually grouped under fixed cost or standing charges and variable costs.*

## *THIS METHOD IS USUALLY APPLIED TO:*

- Transportation services – road, rail, air, etc.*
- Utility services – hospitals, canteen, etc.*
- Distribution services – electricity, gas, etc.*
- Professional services – courier service, management consultants, etc.*



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