

Topic: Advantages of Cost Accounting

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As we know that Cost Accounting is a branch of accounting concerned with recording and analyzing the cost elements of the organization. Cost accounting aims at systematic recording of expenses and analysis of the same so as to ascertain the cost of each product manufactured or service rendered by an organisation. It records each element of the company's total cost of production including fixed cost and several variable costs involved in various stages of production.

Thus Cost accounting is a process of finding out the cost of the products or goods. The main advantages of cost accounting are the following.

- 1. Ascertainment of Cost:** Cost accounting serves the main purpose of ascertaining the cost of products. It records and classifies all expenditures with reference to the cost of products and operations.
- 2. Identifies loss-making Activities:** Cost accounting assists management in determining the loss making activities. It indicates to the management any inefficiencies and the extent of

various forms of waste, whether of materials, time, expenses or in the use of machinery, equipment and tools. Analysis of the causes of unsatisfactory results may indicate remedial measures.

3. **Cost Reduction:** New and improved methods of production are followed under cost accounting system. It leads to cost reduction.
4. **Price Fixation:** Fixing the price of products is a crucial decision to be taken by every business. It helps to provide actual figures of cost for comparison with estimates and to serve as a guide for future estimates or quotations and to assist the management in their price-fixing policy.
5. **Inventory Control:** Cost accounting helps in inventory control - Cost accounting furnishes control which management requires in respect of stock of materials, work-in-progress and finished goods. It enables in avoiding overstocking or under stocking like situations and helps in always maintaining an ideal stock level within the organization.
6. **Helpful in channelizing production on right line:** Cost accounting helps in channelising production on right lines. Proper costing information makes it possible for the management to distinguish between profitable and non-profitable activities. Profits can be maximised by concentrating on profitable operations and eliminating non-profitable ones.
7. **Cost accounting makes comparisons possible:** Proper maintenance of costing records provides various costing data for comparisons which in turn helps the management in formulation of future lines of action.
8. **Control Cost:** Under cost accounting, budgets are prepared and standards are fixed for each activity. No expense can go beyond the budget limit. The performance of every activity is compared with standards to find out the deviations. This will help management in exercising better control.
9. **Helps in Decisions making:** Cost Accounting inculcates the habit of making cost calculations. It certainly checks recklessness. A good cost accounting system can be avoided unfavourable cost.
10. **Check on Accuracy of Financial Accounts:** A good system of Cost Accounting affords an independent and most reliable check on the accuracy of financial accounts. This check operates through reconciliation of profits shown by Cost Accounts and by Financial

Accounts. On the basis of various advantages of Cost Accounting, it can be easily said that a good system of costing serves as a means of control over expenditure and helps to secure economy in manufacture.

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