# How Cost Accountant can play effective role to achieve predetermined objectives of company.

## COST ACCOUNTING

**Cost accounting is a recent development in the accounting world. Since beginning of twentieth century and particularly during the and after World War-I the industrialists become more and more cost conscious. This was partly due to because of growing competition between manufacturers and partly because of increasing government control over pricing. During the war most of the manufacturing was done on cost plus system. During the World War- II many governments came out with legislations which had the effect of placing almost blanket control over prices. Thus, it became imperative for manufacturers:-**

- **Improve quality of the products**
- **Trace the cost accurately for each product**
- **Control the costs.**

**Financial accounting failed to achieve those objectives, and it therefore made the accountants think and a new technique of accounting known as cost accounting.**
**Cost accounting has emerged mainly because of limitations of financial accounting. Cost accounting a specialized branch of accounting, which involves classifications, accumulation, assignment and control of costs.**
**Cost accounting has been defined as "the recording, classifying and appropriate allocation of expenditure for the determination of the cost of product or service, and for the presentation of suitably arranged data for the purpose of control and guidance of management".**
**The cost accounting relates to the collection, classification, and ascertainment of cost and its accounting and control relating to the various elements of the cost. It is the formal mechanism by means of which costs of product or services are ascertained and controlled.**

## Costing:

**Costing is the technique and process ascertaining costs. Cost accounting is different from costing in the sense that the former provides only the basis and information for ascertainment of cost. Once the information is made available, the costing can be carried out arithmetically by means of memorandum statements or by method of integral accounting. Weldon has defined it as "the classifying, recording and appropriate allocation of expenditure for the determination of product or services; the relation of these costs to sales values and the ascertainment of profitability.**

**Management accounting is the internal business building role of accounting and finance professionals who work inside organizations. These professionals are involved in designing and evaluating business processes, budgeting and forecasting,**

**implementing and monitoring internal controls, and analyzing, synthesizing, and aggregating information—to help drive economic value.**

**The role of management accounting differs from that of public accounting, since management accountants work at the "beginning" of the value chain, supporting decision making, planning and control, while audit and tax functions involve checking the work after the fact. Management accountants are valued business partners, directly supporting an organization's strategic goals. With a renewed emphasis on good internal controls and sound financial reporting, the role of the management accountant is more important than ever.**

**It obviously takes more people to "do" the work than it does to "check" the work. In fact, of the five million finance function professionals in the U.S., more than 90% work inside organizations as management accountants and finance professionals. Some common job titles for management accountants in organizations of all sizes and structure include:**

- **Staff Accountant**
- **Cost Accountant**
- **Senior Accountant**
- **Corporate or Division Planner**
- **Financial Analyst**
- **Budget Analyst**
- **Internal Auditor**
- **Finance Manager**
- **Controller**
- **Vice President, Finance**
- **Treasurer**
- **Chief Financial Officer (CFO)**
- **Chief Executive Officer (CEO)**

## Cost Accountant

**Practitioners of accountancy related to cost are known as cost accountants.**

**What are the predetermined objectives of company?**

**First of all it is mandatory for us that we understand the predetermined objectives, what its implications are, how they are set and how a cost accountant can play its vital role in achieving those earlier set objectives.**

**If we analyze from a sole trader to large firms, organizations and companies before they start their business they need some resources to start their business and as soon as they acquire those resources they set certain goals objectives which are called the predetermined objectives of that business.**

**Predetermined objectives can be:**

1. **What would be the projected sales?**
2. **What would be the anticipated expenses?**

3. **What would be the total cost?**
4. **What would be the gross profit and net profit?**
5. **What are the ways to expand the business?**

**Now question arises, how these predetermined objectives can be achieved by cost accountant now to achieve these goals cost accountants prepare budget, variance analysis, and cost reports. By preparing budget we can achieve the sales price cost expenses profit of the company and by variance analysis the confirmation of the prepared budget is obtained.**

**The purpose of this assignment is to introduce the master budget or financial plan. This topic includes an important set of concepts and techniques that represent the major planning device for an organization, as well as the foundation for a traditional standard cost performance evaluation and control system.[1] The chapter includes seven sections. The first section provides a discussion of the underlying concepts of financial planning and budgeting including the various types of budgets. This section also includes a diagram of the master budget that provides an overview of the overall budgeting process. Sections two and three include short, but important discussions of the purposes and benefits of budgeting and the limitations and problems involved in budgeting. The assumptions upon which the budget is based are briefly described in section four. Section five introduces the underlying concept of responsibility accounting and provides a brief discussion of a controversial issue associated with this concept. The techniques used to prepare a master budget are discussed and illustrated in section six. This is the longest section and includes a discussion of where the budget director obtains the budget information as well as how the information is used to complete the various schedules and sub-budgets involved.**

EXHIBIT 9-1
CONCEPTUAL VIEW OF FINANCIAL PERFORMANCE

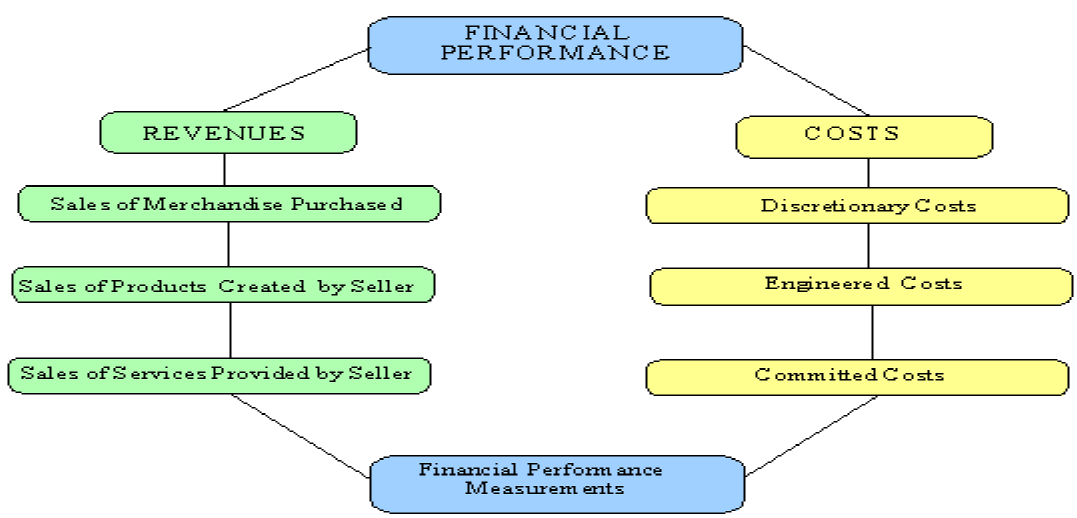
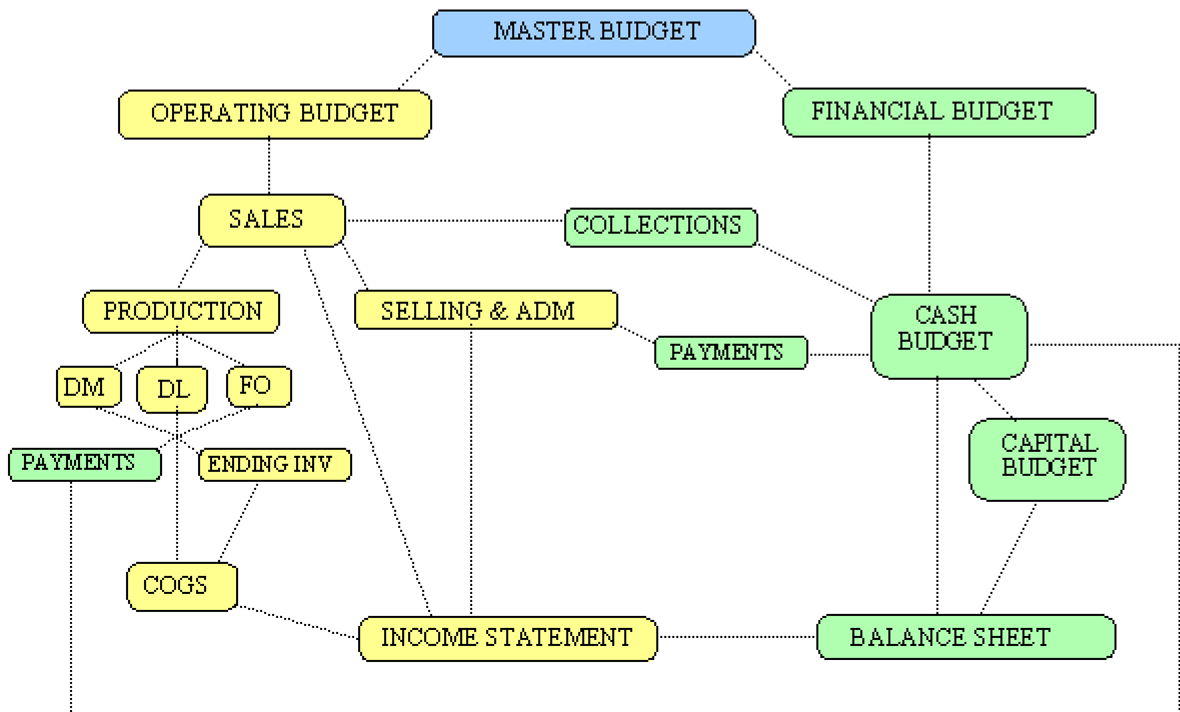


EXHIBIT 9-4
DIAGRAM OF A MASTER BUDGET*




## Objectives of Cost Accounting

**Main objectives of cost accounting are as follows**

- **Ascertainment of cost - The primary objectives of cost accounting is to ascertain cost of different products, job, and services.**
- **Determination of selling price- cost accounting provides detailed information about the composition of total cost for determining action of the selling price of the product or service under different conditions.**
- **Measure and increasing efficiency- cost accounting involves a study of various operations used in manufacturing a product or providing service. The study facilitates measuring of efficiency of organization or a whole as well as of departments besides devising means of increasing efficiency.**
- **Control – cost accounting aims at improving the efficiency by controlling and reducing cost. Budgetary control and standard costing are important techniques used control costs.**
- **Facilitating preparations of financial and other statements -it provides statements at such short intervals as the management may require. In order to operate business at high level of efficiency it is essential on the part of the management to have a frequent review of products, sales and operating result. Cost accounting produces daily weekly and monthly**

**volumes of units produced, accumulated cost together with appropriate analysis.**

- **Fully developed cost accounting system provides ready information regarding stock of raw material, work-in-progress and finished goods, facilitates the preparation of financial and other statements.**
- **Providing basis for operating policy- the cost accounting helps in the management in formulating operative policies. The cost accounting provides useful information.**
- **The system is quite expensive because analysis allocation and apportionment of costs and absorption of Overhead require considerable amount of clerical work.**
- **The results shown by the cost accounts differ materially from that shown by the financial accounts.**
- **Cost of system itself does not control costs or improve efficiency. If the management is alert and efficient, it can control costs without the accounting system.**

## Advantages to the managements

- **Supplies detailed cost information: - Cost accounting supplies detailed and regular cost information to the management to ascertain the cost of various products, process, jobs, departments, services.**
- **Help in price fixation: - cost plays an important role in the price fixation. Cost accounting assists the management in fixing up selling price not only during depression period**
- **Profitable and unprofitable activities are disclosed: - accounting makes possible for management to distinguish between profitable and non-profitable activities. Concentrating on profitable operations and eliminating non- profitable ones can maximize profit.**
- **Helps in estimates: - adequate costing records provide a reliable basis up on which tenders and estimates may be prepared.**
- **Wastages are eliminated: - as it is possible to know the cost of the article at every stage, it becomes possible to check various forms of wastages such as time, expenses etc. or in the usage of machine and equipments.**
- **Guides future production policies:- if the costing records are kept, comparative cost data for different periods and various volumes of production will be available. It will help the management in forming future course of action.**
- **Provides data for periodical profit and cost accounts:- adequate costing records supply to the management such data as may be necessary for preparation of profit and loss account and balance sheet, at such intervals as may be desired by the management.**
- **Aids in determining and enhancing efficiency:- disclose of wastages, idle time and other loses in various operates of manufacturing of a product are studied by the cost accountant. The efficiency can be measured and costs are controlled through formulation of various devices to increase the efficiency.**

- **Helps in inventory control: - cost accounting furnishes data for controls which management require in respect of stock of material, WIP, and furnished goods.**
- **Helps in cost reduction: - cost accounting helps in cost control, which aims at improving efficiency by controlling and reducing cost. Budgetary controls and standard costs are two important cost accounting techniques, which are used to control costs.**