



# COST ACCOUNTING : THEORY AND PROBLEMS

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Shree Mahavir Book Depot  
(Publishers)  
Twenty Second Thoroughly  
Revised and Enlarged  
Edition (2004-05)  
Pgs.1104, Price Rs.240/-

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With increase in competition and consequent economic pressures, cost and management accountancy has been finely interwoven into the main fabric of management. The accumulation and analysis of cost accounting information for the valuation of products and services, internal decision-making, and measurement of financial performance is widespread since the last century. Collection, assimilation, collation and analysis of financial information from all areas of an organization are the functions of a cost accountant. There is no denying the fact that an organization's success or failure is dependent on the quality of information made available to the management. This is where cost accounting plays a vital role to the company. It helps to ensure that managerial decisions are well within the cost prescriptions. At the same time, competitive positioning requires knowing which product lines, regions, segments are contributing more to profit; knowledge of cost of raw materials, labor, transport, overheads helps in preparing budgets for the operation that is planned; manufacturing is becoming more capital intensive, there are more indirect costs. Costing errors (which affect pricing) may be fatal; the organization may lose a competitive bid due to miscalculation of costs and it is important to detect inefficient activity. Thus with the growing importance of Cost Accounting, the book provides an in-depth understanding and knowledge about Cost Accounting.

This book has been viewed by many as the basis for cost accounting theory. As the authors stated in the preface, they "have attempted to meet all the more

comprehensively the combined course requirements of the students appearing in the paper Cost Accounting at various university examinations and those conducted by the professional institutions". The book is divided into five sections. *Section One Costing Fundamentals* consists of six chapters (chapter one to six) thoroughly designed to provide fundamental understanding of the basic costing principles and concepts and related issues of the three main elements of Cost of Production: Raw Material, Direct Labor and Direct Expenses, Overheads. Chapter six includes Activity Based Costing, which gives an understanding of Activity Based Costing System, and allocation of activity based costs to cost pools such as products, customers, markets, or, projects. *Section Two Costing for Specific Industries* includes four chapters (chapter seven to ten) focusing on single or output costing; job, batch and contract costing; process costing; operating costing. *Section Three Accounting Methods* with three chapters (chapter eleven to thirteen) deals with Cost Control Accounts, Reconciliation of Cost and Financial Accounts and Integrated Accounts. *Section Four Costing for Control* comprising of nine chapters (chapter fourteen to twenty two) incorporates costing for management decision making and control through Budgetary Control, Standard Costing and Variance Analysis, Marginal Costing and Cost Volume Profit Analysis, Uniform Costing and Inter Firm Comparison. The section also includes chapters about Presentation of Cost Information through Traditional and Mechanized Accounting. *Section Five Revisionary Problems* deals with practical problems of all the previous chapters (chapter one to twenty two).

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Authors have briefly incorporated scope of cost accounting, elements of cost, classification of cost to lay a strong foundation for beginners. Origin and growth of cost accounting is outlined in the beginning to build a complete orientation of the subject. Difference between Financial Accounting and Cost Accounting is summarized which clarifies that each deals with matters special to itself. Production costs are important for overall profitability of an organization. An efficient system of control will lead to a significant reduction in production cost. Therefore, understanding of the concept and related issues of the three elements of cost of production is a must. The book addresses the techniques and procedures to be followed for material control; accounting and control of labor; classification of overheads into different categories; the treatment of different items of overheads in cost accounts; allocation and apportionment of overheads and different methods for disposal of under and over absorbed overheads.

Specific industries like breweries, brickworks, sugar mills, paper mills, chemical plants, paper manufacturing, printing shops, machine tool manufacturing, repair shops, wood work - shops etc., vary in their functional orientation. Firstly one must be able to understand their meaning and utility and then be able to differentiate between all of them. Computation of cost, profit and the treatment of profits slightly vary in these industries. The book provides thorough understanding of the related specific aspects. There exists difference in computation of cost in case of different industries using operating costing. Chapter ten explains the same with the help of solved illustrations.

With organizations maintaining cost accounting records and financial accounting books, a need to reconcile the two emerges. One has to first identify the ledgers maintained by financial as well as cost departments, causes of difference between the profits shown by both of them and then make appropriate entries in the books of account. At times, integral system

of account is followed by organizations. The book explains both integral and non-integral system of accounting in detail.

Organizations pursue various short range and long-range goals. To meet these goals, costs are to be reduced and proper relationship between cost and incomes are to be established. Managements use various tools for planning and control such as budgeting, responsibility accounting, standard costing and variance analysis, marginal costing and cost volume profit analysis, inter firm comparisons. This is what they must do to satisfy their customers and succeed in the market place. The book illustrates different types of budgets and analysis of variances in the simplest form. One will appreciate and understand the importance of performance budgeting, zero based budgeting, responsibility accounting, cost volume profit analysis and break-even analysis for an organization after reading the relevant text.

The book illustrates the various methods of presentation of cost information through charts and graphs, thus making knowledge of reporting easy for cost accountants. Various legal and statutory provisions of cost records and cost audit are summarized. Last but not the least basic formulae in the beginning and the section of revisionary problems in the end is an asset for students.

The appendix one covers terminology issued by CIMA London, which is a ready reckoner for professionals and students. In order to enhance standard practices and help industry and the government towards better-cost management, Cost Accounting Standard Board (CASB) was setup by the Council of the Institute of Cost and Works Accountants of India (ICWAI). Appendix two covers its objectives, scope and applicability. CASB has given four Cost Accounting Standards. The appendix three of the book covers them in a simple point wise manner. All of the chapters are written in simple lucid and effable style. This is not a book that will strain you and is for future accountant who want to develop and enhance their understanding of and ability to solve cost accounting problems.