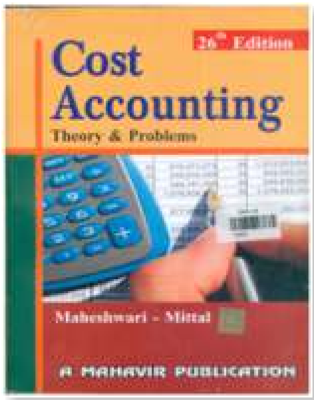

COST ACCOUNTING -THEORY & PROBLEMS

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The business organisations in today's world are witnessing opportunities and threats alike. Some organisations maximize opportunities and minimize threats to become leaders while those who cannot do so, vanish sooner or later. The focus is on improving the bottom line. To achieve this objective, a paradigm shift towards cost management techniques need to be undertaken and it is imperative both for practitioners and budding managers to comprehend the cost concepts, techniques and their management. This need has been fulfilled through the 26th revised edition of the book titled "Cost Accounting-Theory and Problems". The inclusion of all latest concepts, upgradations and updations relevant to the topics are a special feature incorporated by the authors. The book provides an exhaustive coverage through FIVE sections divided into Twenty Three comprehensive chapters.

SECTION ONE covers the "Costing Fundamentals" in six chapters (1-6). To achieve success in this competitive business environment understanding of costing fundamentals is essential for the business managers for effective decision making. Chapter 1 discusses the basics of cost accounting which sets the ground for further understanding of the subject. Globalization has resulted in expansion of businesses across the world and a wide range of products are entering the market. Appropriate methods and techniques are required for controlling the costs of essential components viz. Material, Labour and Overheads for effective cost management. An understanding of the procedure of materials control will assist the business managers in continuous and adequate supply of materials for conduct of smooth manufacturing operations. The book serves the purpose with the inclusion of complete procedure of the materials control in chapter 2. As is rightly said, "Without labour nothing prospers", the cost of the product largely depends upon the efficiency of labour but achieving effectiveness is easier said than done. It becomes mandatory for the managers to familiarise with the choice of methods of remuneration, controlling idle time cost and ensuring optimum utilisation of resources to optimise labour costs. All these concepts have been explained by the authors in chapter 3. Overhead costs are a crucial matter of concern for every organisation, because, everybody has them but nobody owns them. Overheads, also known as supplementary costs, constitute an essential element of cost as they are incurred both for manufacturing a commodity and making it ready for sale. Chapter 5 deals with allocation of overhead costs to the end product. In this section the authors have included a new chapter 6 on Activity Based Costing. It is a method of cost attribution to cost units on the basis of benefits received from indirect activities. The performance of particular activities and demands made by these activities on the quantity of resources of an organisation are linked together so that cost of product is arrived at as per the quantum of actual activities performed to produce a product or service.

Businesses are diverse in their nature of operations and characteristics of finished products produced or services rendered. The job of building a house is quite different from running a motor vehicle for a kilometre. Though, in all cases, the basic principles and procedure of costing remain the same but methods and techniques to ascertain cost of their products or services are different. Taking this into consideration, authors have delineated "Costing for Specific Industries" in SECTION TWO comprising of four chapters (7-10). Chapter 7 discusses the single or output costing; the system is, most commonly used in case of industries like breweries, brickworks, dairies and sugar mills. All types of manufacturing concerns can broadly be classified into two categories –(i) Mass production concerns (ii) Special order concerns. Special order concerns manufacture products in clearly distinguishable lots in accordance with special orders and individual specifications. In such concerns, it is necessary to keep a separate record of each lot of products or jobs from the time the work on the job or product begins till it is completed. Chapter 8 provides the complete procedure of preparation of accounts according to the job, batch and contract costing. These costing methods are suitable in case of Printing Shops, Construction Companies, Machine Tool Manufacturing, Repair Shops, Wood-Work Shop Etc.

When a product passes through different stages of production, each distinct and well defined, process costing is employed. This type of costing is useful in the case of manufacturing erasers, oils, chemicals or processed food, etc.. In Chapter 9 exhaustive procedure of maintaining the process accounts has been described in very lucid manner. Adequate number of illustrations has been added for better understanding of the subject. Operating costs are the costs incurred by service providers. Most widespread examples of such undertakings are the Transport Concerns, Gas Agencies; Electricity Undertakings; Hospitals; Theatres etc. The varied nature of activities carried out by the service undertakings requires a different costing system. Chapter 10 comprehends the concept of operating or service costing and also acquaints the readers with the process of ascertaining the unit cost of a particular service.

In this challenging business world to become a leader in the industry, adoption of strategies like cost control and quick decision making are essential. Proper maintenance of cost accounts and financial accounts facilitates managers in effective decisions making. Cost accounting records can also be kept on the basis of double entry system which helps in checking the accuracy of the posting made. This also assists in reconciliation of cost and financial accounts. SECTION THREE emphasizes on the “Accounting Methods” with the help of three comprehensive chapters 11, 12 and 13. These chapters impart knowledge about the method of maintaining the cost control accounts or non-integral accounts, reconciliation of cost and financial accounts and integrated accounts respectively. Ledgers required by financial as well as costing departments have been mentioned in the chapters along with the procedure for making accounting entries.

SECTION FOUR themed as “Costing for Control” contains ten chapters (14-23). It is stated that, “Economy is the method by which we prepare today to afford the improvements of tomorrow”. Savings of today will help us tomorrow. Effective budgeting techniques are useful in proper planning of future income and expenditure of individuals or business organizations. In large organizations such planning is highly formal while for smaller businesses, it is less formal. Keeping in mind the importance of future planning authors have dedicated Chapter14 to the immediate future planning i.e. the next year through describing the complete process of budgetary control. Planning is indispensable for making control effective. Growing competition has made survival of businesses much more complicated than earlier. In this turbulent time, cost control has become a major issue of concern for organizations across the world. To meet the challenges of current business world, standard costing technique help the managers to control costs through setting up standards and comparing it with actual, for identifying the deviations in the usage of different elements of costs. Specialized techniques for calculating variances of materials, labour and overheads have been thoroughly elucidated in chapter 15. With the advent of information technology, exposure and awareness of customers have increased manifold. Customers are demanding high quality products at lower prices. Hence, in the present scenario profit generation has become a challenging task; therefore, marginal costing technique and its use in effective manner has become need of the hour. With the help of marginal costing technique, break-even point, point of margin of safety, effect of change in prices on net profit, effect of change in selling price on profits can be analyzed which will facilitate business managers in taking important decisions regarding how much to produce, what to produce, how to produce, when to produce, at what cost to produce, how to maximize the profits and minimize the costs. Chapter 16 provides insight into the concepts of marginal costing and cost volume profit analysis.

Uniform costing technique emphasizes on the adoption of same costing principles, practices and procedures by the firms working in the same industry for inter-firm comparison. It was first introduced by the National Association of Stove Manufacturers of U.S.A. which developed a uniform formula for use by its members for costing industry's products. In India, it is used in coal industry, steel industry, fertilizer industry and can be used in the other industries too. It is also useful for price fixing bodies, like Bureau of Industrial Costs and Prices or other Government departments to determine the average cost and fixing the fair selling price of various products. Chapter 17 illuminates the concept of uniform costing and inter-firm comparison. Uniform pattern adopted by all helps mutually in cost control and cost reduction which is at the high priority for organizations. Chapter 18 has been completely revised by the authors as per the recent changes in Cost Records and Cost Audit Rules, 2011 notified by Ministry of Corporate Affairs (MCA). A new concept of operational audit has also been incorporated in this chapter.

To prosper and survive during recession every organization across the globe has adopted cost reduction strategies which aid in the maintenance of reasonably good financial returns. The authors have described the concept of cost reduction along with its different techniques for future business managers in chapter 19. Value analysis through cost reduction has also been discussed in the chapter. Value chain analysis is a powerful tool in the hands of management accountants to identify the key activities within the firm which form the value chain for that organisation, and have the potential of a sustainable competitive advantage to the organisation. Chapter 20 provides thorough understanding of the concept of value chain analysis. Chapters 21, 22 and 23 throw light on the innovative concepts of quality costing, target costing, and life cycle costing respectively.