

P.G. SEM - IV
EC - 2 (ADVANCED COST ACCOUNTING)
TOPIC - FUNCTIONS OF COST ACCOUNTING

Functions of Cost Accounting

Cost accounting is a branch of accounting that deals with the classification, recording, allocation, and control of costs. It provides detailed cost information to management for planning, control, and decision-making. The main objective of cost accounting is to minimize cost and maximize efficiency. The important functions of cost accounting are explained below:

1. Ascertainment of Cost

The primary function of cost accounting is to ascertain the cost of a product, service, or operation. It determines the cost per unit by collecting and analyzing costs related to materials, labor, and overheads. Accurate cost ascertainment helps management in pricing and profitability analysis.

2. Cost Control

Cost accounting helps in controlling costs by setting cost standards and comparing them with actual costs. Any deviation or variance is analyzed and corrective actions are taken. Techniques such as standard costing, budgetary control, and variance analysis are used to reduce unnecessary expenses.

3. Cost Reduction

Cost reduction aims at achieving real and permanent reduction in unit cost without affecting quality. Cost accounting identifies areas of inefficiency, wastage, and idle capacity, thereby helping management to improve methods of production and reduce costs.

4. Fixation of Selling Price

Cost accounting provides reliable cost data which helps in fixing selling prices of products and services. It ensures that prices cover total cost and provide a reasonable margin of profit, especially in competitive markets and during tenders or contracts.

5. Facilitating Planning and Budgeting

Cost accounting assists management in preparing budgets for production, sales, materials, and overheads. Proper planning helps in

optimum utilization of resources and smooth functioning of business activities.

6. Decision-Making

Cost accounting provides relevant information for managerial decisions such as make or buy, shut down or continue, introduction of a new product, and selection of the most profitable alternative. It supports short-term and long-term decision-making.

7. Profit Measurement

By analyzing costs and revenues, cost accounting helps in measuring profit for each product, department, or process. It enables management to identify profitable and unprofitable activities and take necessary corrective actions.

8. Inventory Control

Cost accounting maintains proper records of materials, work-in-progress, and finished goods. Effective inventory control avoids over-stocking and under-stocking, reduces carrying costs, and prevents wastage.

9. Providing Information to Management

Cost accounting supplies detailed and timely cost reports to management. These reports help in evaluating performance, improving efficiency, and achieving organizational objectives.

Cost accounting plays a vital role in modern business management by providing accurate cost information, assisting in planning and control, and supporting effective decision-making. It helps in improving efficiency, reducing costs, and increasing profitability of the organization.