

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

Principles of Cost Accounting

Cost accounting is a systematic process of recording, classifying, analyzing, and controlling costs to aid management in decision-making. The principles of cost accounting act as guidelines to ensure accuracy, consistency, and usefulness of cost information. The important principles of cost accounting are explained below:

1. Principle of Cost Ascertainment

This principle emphasizes that costs should be accurately identified and measured for each product, process, job, or service. Proper methods such as job costing, process costing, or batch costing should be adopted depending on the nature of production.

2. Principle of Cost Classification

Costs should be classified logically into direct and indirect costs, fixed and variable costs, controllable and uncontrollable costs, etc. Proper classification helps management in cost control, pricing, and profitability analysis.

3. Principle of Cost Allocation and Apportionment

According to this principle, costs should be fairly allocated and apportioned to cost centers or cost units. Direct costs are charged directly, while indirect costs are apportioned on a reasonable and equitable basis to ensure accurate cost determination.

4. Principle of Cost Control

Cost accounting aims at controlling costs by setting standards, preparing budgets, and comparing actual costs with standard or budgeted costs. Variances are analyzed to take corrective actions and improve efficiency.

5. Principle of Matching Cost with Revenue

Costs should be matched with the revenue of the period in which they are incurred. This principle helps in determining the correct profit or loss and ensures meaningful financial results.

6. Principle of Consistency

Cost accounting practices and methods should be consistently followed from one period to another. Consistency ensures comparability of cost data and reliable performance evaluation.

7. Principle of Cost Reduction

This principle focuses on the continuous effort to reduce costs without affecting the quality of products or services. It encourages the use of improved techniques, better resource utilization, and elimination of waste.

8. Principle of Responsibility Accounting

Costs should be assigned to specific cost centers and responsible persons. This helps in fixing accountability and motivating managers to control costs within their areas of responsibility.

9. Principle of Usefulness

Cost information should be relevant, timely, and useful for management decision-making. The benefits derived from cost accounting should exceed the cost of maintaining the cost accounting system.

In conclusion, the principles of cost accounting provide a sound framework for effective cost management, control, and decision-making. By following these principles, organizations can improve efficiency, reduce costs, and enhance overall profitability.