

# Information About The Cost Accounting System And Its Relationship With Financial Accounting And Management Accounting

Joshi Vidhi Yatishkumar<sup>1</sup>, DR. Prof. Paresh Shah<sup>2</sup>

<sup>1,2</sup>Rai University, Saroda, Ahmedabad, Gujarat,382260 India.

**Abstract-** In Current scenario Accounting is the most important part of the business. All Companies are mandatory kept the financial records of the companies. Companies financial Statement shows the current position and growth of the companies. With the help of Cost Accounting companies reduce their cost and increase the profitability. In this paper cost accounting's relation with financial Accounting and Management Accounting is mention. Also mention objectives, advantages and limitation. There is a proper method and some steps for installation of cost Accounting System that describe here and why there is the needs for cost Accounting system in companies. Cost Accounting has relationship with financial Account and Management Account. Financial Accounting is macro Accounting and cost Accounting is micro Accounting. Application of Cost Accounting is Management Accounting.

**Keywords-** Accounting, Cost Accounting, Financial Accounting, Management Accounting,

## I. INTRODUCTION

In 15<sup>th</sup> century no accounting system was available at that time only one accounting system was available and it was a barter system. At the ending years of 15<sup>th</sup> century in 1495 Luca Piccioli finds the double entry system of Accounting. Later it was developed in England and all over the world till the 20<sup>th</sup> century.in every century some changes were accrued and made accounting easy to use and understand.

Accounting is a Language of Business. We can say that Accounting is a heart of the Business. There are many definition are given by the many institutions. According to the **American Institute of Certified Public Accountants (AICPA)** "Accounting is an art of recording, classifying and summarising in a significant manner and in terms of money, transactions and event which are in part, at least, of a financial character and interpretation and result thereof." Accounting is known as well as Science and Arts. Science because all accountant are prepared as per principals and laws which are accepted universally. It is arts because art is a technique that helps you to achieve your objectives. Accounting is an arts

because it prescribes the process through which objectives are fulfilled. [1]

## II. DEFINITION OF COST ACCOUNTING

In Simple words Cost Accounting is the process of accounting for cost which begins with recording of income and expenditure and ends with the preparation of statistical data.

According to CIMA London, [2] "the establishment of budgets, standard cost and actual Cost of operations, process, activities or products; and the analysis of variance, profitability or the social use of funds."

### 2.1 History of Cost Accounting:

In every century there are some development accrued in Cost Accounting. Since 16<sup>th</sup> century to 20<sup>th</sup> century. Mostly Accountant and researchers are believe that Cost Accounting is developed after Second World War. Industrial Revolution make massive change in Cost Accounting system. Its change methods and techniques of costing. Industrial Revolution made Cost accounting simple and Easy.

In 16<sup>th</sup> century cost Accounting was based on the decision making. 17<sup>th</sup> century Cost Accounting system was based different geographical Area Cost effect on profit and changing level of production. 18<sup>th</sup> century Process Costing and cost Management System was developed. 19<sup>th</sup> Century was a period of Industrial Revolution, there were massive changes accrued in Cost Accounting, large scale enterprise developed during these period. 20<sup>th</sup> century cost of Inventories for financial Reports and stills continuous. Cost Accounting continuous with dramatic changes, changes in Information Technology made changes in cost Accounting [3]

**2.2 Needs of Cost Accounting System:** [4] every company needs the cost Accounting because every department R&D department, purchasing, commerce marketing, Customer

service, planning marketing, production, distribution etc. department needs cost data.

- Cost Accounting not only needs in manufacturing company but also used in service, It and Trade organization
- Costing is needs to analysed the financial account of the company
- Aim of costing is reduce the price cost to helps consumer in get good quality product
- Cost Accounting needs in information identify the duration of Trade desperation and competition
- Costing check carelessness and avoid incidents of mistake
- Government also needs the cost Accounting to formulate the policy for tax & revenue.

**2.3 Objectives of Cost Accounting:**[5] here are the main objectives of Cost Accounting System.

- To ascertain the Cost per unit of production
- To help in determine the selling price
- To help in cost control and cost reduction
- To assist the management in decision making
- To Provide a basis for operating policies
- To information about the inefficiency and carelessness
- To inform the real situation of production activity
- To facilitate cost reduction

**2.4 Advantages of Cost Accounting:** Cost Accounting System has so many advantages and its helps in achieving the goal to company and below are some advantages of them.

- It helps in Adequacy or Inadequacy of selling prices
- It helps in Disclosure of profitable products
- It helps in Control of material and supply
- It helps in Maintenance of proper investment in inventories
- It helps in Correct Valuation of inventories
- It helps in use of company-wide wage incentive plans
- It helps in Control of labour cost
- It helps in identifies reasons for losses
- It helps in reliable check on general accounting
- It helps in use of standards for measuring efficiency

**2.5 Limitation of Cost Accounting:**As we know there are two sides of coin, same there are some advantages of Cost Accounting system as other side cost Accounting have some limitation as follow:

- It is expensive, and complex in use

- There are Lack of Uniformity
- It is used secondary data some time which are not reliable
- It is based on estimation and previous data
- It is only brings out the Cost of Goods or services
- It is Not useful for determining the tax liabilities
- IT is not suitable for small scale units

Cost Accounting System is always helpful in Company. Nation Income is divided in the three sector First is Farming sector, second is Industry sector and Third Sector is Service. Industry sector is main income source of nation. Different types of product are prepared here. Every sector has different type of cost, so company should be aware before installing proper cost accounting system.

### III. INSTALLATION OF COST ACCOUNTING SYSTEM:

Sometime readymade cost system should not suitable for business at that time they specially design system as per their requirement. Before installing a cost system proper care should be taken.

- **Procedure of Installation of Cost Accounting System:**

[6]The following are the points should be looked before installing Cost Accounting System.

1. The nature, method and stages of production, the number of varieties and the quality of each product and such other technical aspects should be examined. It is to be seen how complex or how simple the production method are and what is the degree of control exercised over them.
2. The size, layout and organisation of the factory should be studied.
3. The method of purchase, receipt, storage and issue of materials should be examined and modified wherever considered necessary.
4. The wage payment methods should be studied.
5. The requirements of the management and the policy adopted by them towards cost control should be kept in view.
6. The cost of the system to be installed and considered. It is needless to emphasize that the installation and operation of system should be economic.
7. The system should be simple and easy to operate.
8. The system can be effectively run if it is appropriate and properly suited to the organisation.
9. Forms and records of original entry should be so designed and to involve minimum clerical work and expenditure.

10. Then system should be so designed that cost control effectively exercised.
11. The system should incorporate suitable procedure for reporting to the various level of management. This should be based on the principles of exception

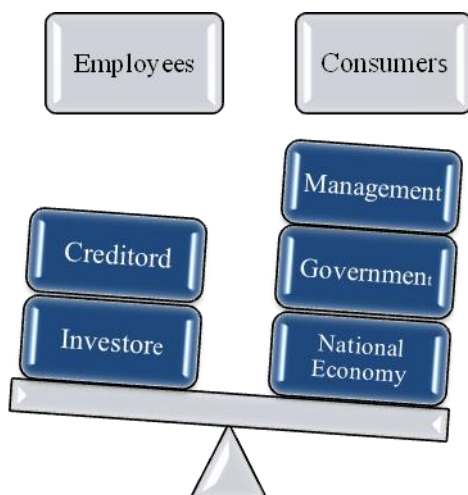
When Company install the cost Accounting system some time it cannot be installed. Not evert Cost Accounting system face difficulties during the installation, but sometimes specially designed Cost Accounting system face difficulties during the installation period.

### 3.1 Practical Difficulties in Installation of Cost Accounting System:

On the way of installation of Cost Accounting System some practical difficulties came as under described.

1. In the organization if top management gave lack support and because of lack knowledge of technologies sometimes put some difficulties during installation.
2. Staff is trained and used to with the traditional method. Resistance came from the existing staff it creates difficulties.
3. During the installation Non- Corporation situation arise at other level of production in organizations.
4. When new system applied at that time there are Shortage of trained staff.
5. Heavy costs of implementation of new system put some questions and lack of awareness About the method.

**3.2 Beneficiaries of Cost Accounting System:** [7]Cost Accounting is useful for not only Managers but also for outsider for the business. Cost Accounting system help beneficiaries in different ways. Beneficiaries of Cost Accounting are as under:



1. **Employees:** Cost Accounting helps in fixing the wages of workers and help them to appreciate their work by giving them increment, promotions etc. workers benefits and their abilities are indirectly affect the growth of business and directly to continues employment.
2. **Creditors:** creditors puts their interest in the success of the business. Their interest and expectation are based on the data that represented Cost Accountant. Cost Accounting system helps them for make judgement on profitability and ability of company.
3. **Investors:** Investors want the information regarding the company cost and income before investing their money in to the company. Cost Accounting system helps them to know about the financial condition and company's earning capacity.
4. **Consumers:** consumer's interest is in get good quality product with lower price. Costing helps companies for reducing the cost and Maximise the profit. Reduction in cost makes indirect benefit to the consumers for get good product at the lowest price.
5. **Management:** Cost Accounting is closely related with the management. There is a thinner line between the cost Accounting and management Accounting. When Cost Accounting complete its work management Accounting's work start. Managers take decision that based on the cost data given by the cost Accountant. Accurate Accounting helps the managers to make decision about the machinery and man-made work that suitable to the companies and also helps in price decision.
6. **Government:** For government Cost Accounting is relevant source of information. Government Agencies formulate the Tax-Policy regarding to the information gathered from the cost Accounting. Cost Accounting also helps in regulate the Excise duty and Income Tax, it is also helpful to increase the revenue.
7. **National Economy:** Nationals economy's most important part is Industry sector. Industry's growth helps in National growth. National economic development is based on the company's efficient costing system and government revenue. Company's growth is increase in production, cost control. Progress of Industry is concerned with the Costing System.

There are Main three branches of Accounting: Financial Accounting, Management Accounting, and Cost Accounting. All Accounting branches have different work criteria. Financial Accounting is related with the finance, Management Accounting is related with decision making and

Cost Accounting related with the cost. All Accounting branches are related with each other.



Financial Accounting is preparing the financial statements which shows the position of the companies which helps the external users. Financial Accounting is mostly concern with external reporting. Management Accounting is concern with the Management. Management Accounting used to take decision and formatting the policy for achieving the goals. Management Accounting use the data provided by the Cost Accountant. When Cost Accounting complete their work Management Accounting starts next. Cost Accounting is a quantitative method that collects, classifies, summarises and interprets information for product costing, operation planning and control and decision making.

**IV. RELATIONSHIP BETWEEN COST ACCOUNTING AND FINANCIAL ACCOUNTING**

Financial Accounting is primarily concerned with the preparation of financial statements. Financial Accounting is mostly concerned with external reporting. [8]Financial accounting is a Field of accounting that reports financial position and income according to accounting rules. Cost accounting Field of accounting that measures, records, and reports information about costs.A Cost Accounting is primarily charged with the responsibility of providing cost data whatever purpose they may be required for.

We can say,

Financial Accounting = Macro Accounting

Cost Accounting = Micro Accounting

**4.1 Difference between Cost Accounting and Financial Accounting**

As per above discussion here is a comparison of Cost Accounting and Financial Accounting [9] There are different characteristic for between them as under:

Topic	Financial Accounting	Cost Accounting
Users of Information	External (investor, Creditor and so on)	Internal ( Manager )
Important Criteria	Comparability, Decision relevance (for investor)	Decision relevance (for managers), timeliness
Who Establishes?	External Standard setting Group	Managers
How to determine Accounting Treatment?	Standards ( Rules)	Relevance for Decision Making

**V. RELATIONSHIP BETWEEN COST ACCOUNTING AND MANAGEMENT ACCOUNTING**

Management accounting is the process of measuring, analysing, and reporting financial and nonfinancial information that helps managers make decisions to fulfil the goals of an organization. Managers use management accounting information to:

1. Develop, communicate, and implement strategies
2. Coordinate product design, production, and marketing decisions and evaluate a company’s performance

Cost accounting provides information for both management accounting and financial accounting professionals. Cost accounting is the process of measuring, analysing, and reporting financial and nonfinancial information related to the costs of acquiring or using resources in an organization. Cost Accounting and Management Accounting are greatly related and inseparable.

We can say,

Application of Cost Accounting = Management Accounting

**5.1 Difference between Financial Accounting and Management Accounting**

Cost Accounting have a relation with both accounting here is a difference between them: [11]

• Points	Financial Accounting	Management Accounting
1.Users	Externals	Internals
2.Organizational Focus	Whole (aggregated)	Parts (segmented)
3.Information Characteristics	Must be <ul style="list-style-type: none"> <li>• Historical</li> <li>• Quantitative</li> <li>• Verifiable</li> <li>• Monetary</li> </ul>	May be <ul style="list-style-type: none"> <li>• Current or Forecasted</li> <li>• Quantitative or Qualitative</li> <li>• Monetary or nonmonetary</li> </ul>
Over reading Criteria	<ul style="list-style-type: none"> <li>• Generally Accepted Accounting Principal</li> <li>• Consistency</li> <li>• Verifiability</li> </ul>	<ul style="list-style-type: none"> <li>• Situational relevance</li> <li>• Benefits in Excess of Cost</li> <li>• Flexibility</li> </ul>
1. Record Keeping	Formal	Combination of Formal and informal

## VI. CONCLUSION

In this paper discussion is based on Cost Accounting. Cost Accounting continues to experience dramatic changes. Development in IT (information Technology changes the method of keeping records.in past decade manual bookkeeping was happened later on computers. Cost Accounting has become a necessity in virtually every organizations, government agencies, professional organization etc. One reason for this rapid changes is that each stage required information on the performance ofproducts. In recent years changes are accrued cost Accountant and Cost Accounting methods must continuously adapt to changes in all business areas.

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