

COST ACCOUNTING - ADVANTAGES

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The advantages of cost accounting are:

Disclosure of profitable and unprofitable activities

Since cost accounting minutely calculates the cost, selling price and profitability of product, segregation of profitable or unprofitable items or activities becomes easy.

Guidance for future production policies

On the basis of data provided by costing department about the cost of various processes and activities as well as profit on it, it helps to plan the future.

Periodical determination of profit and losses

Cost accounting helps us to determine the periodical profit and loss of a product.

To find out exact cause of decrease or increase in profit

With the help of cost accounting, any organization can determine the exact cause of decrease or increase in profit that may be due to higher cost of product, lower selling price or may be due to unproductive activity or unused capacity.

Control over material and supplies

Cost accounting teaches us to account for the cost of material and supplies according to department, process, units of production, or services that provide us a control over material and supplies.

Relative efficiency of different workers

With the help of cost accounting, we may introduce suitable plan for wages, incentives, and rewards for workers and employees of an organization.

Reliable comparison

Cost accounting provides us reliable comparison of products and services within and outside an organization with the products and services available in the market. It also helps to achieve the lowest cost level of product with highest efficiency level of operations.

Helpful to government

It helps the government in planning and policy making about import, export, industry and taxation. It is helpful in assessment of excise, service tax and income tax, etc. It provides readymade data to government in price fixing, price control, tariff protection, etc.

Helpful to consumers

Reduction of price due to reduction in cost passes to customer ultimately. Cost accounting builds confidence in customers about fairness of price.

Classification and subdivision of cost

Cost accounting helps to classify the cost according to department, process, product, activity, and service against financial accounting which give just consolidate net profit or loss figure of any organization without any classification or sub-division of cost.

To find out adequate selling price

In tough marketing conditions or in slump period, the costing helps to determine selling price of the product at the optimum level, neither too high nor too low.

Proper investment in inventory

Shifting of dead stock items or slow moving items into fast moving items may help company to invest in more proper and profitable inventory. It also helps us to maintain inventory at the most optimum level in terms of investments as well as variety of the stock.

Correct valuation of inventory

Cost accounting is an accurate and adequate valuation technique that helps an organization in valuation of inventory in more reliable and exact way. On the other hand, valuation of inventory merely depends on physical stock taking and valuation thereof, which is not a proper and scientific method to follow.

Decision on manufacturing or purchasing from outside

Costing data helps management to decide whether in-house production of any product will be profitable, or it is feasible to purchase the product from outside. In turn, it is helpful for management to avoid any heavy loss due to wrong decision.

Reliable check on accounting

Cost accounting is more reliable and accurate system of accounting. It is helpful to check results of financial accounting with the help of periodic reconciliation of cost accounts with financial accounts.

Budgeting

In cost accounting, various budgets are prepared and these budgets are very important tools of costing. Budgets show the cost, revenue, profit, production capacity, and efficiency of plant and machinery, as well as the efficiency of workers. Since the budget is planned in scientific and systemic way, it helps to keep a positive check over misdirecting the activities of an organization.