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From Cost Accounting For Dummies. By Kenneth Boyd. Cost accounting is a valuable tool you use to reduce and eliminate costs in a business. You also use cost accounting to determine a price for your product or service that will allow you to earn a reasonable profit.

Cost Accounting implies a branch of accounting which deals with recording, classifying, accumulation, allocation and control of the cost of production. It captures the incomes and expenditures and prepares statements and reports for the respective period, so as to determine and control costs. It aims at keeping a record of the cost of production, by ascertaining input cost at each level of production including fixed cost such as rent and depreciation. Objectives of Cost Accounting Determination of Cost: To accumulate, allocate and ascertain cost for each cost object is the primary objective of the cost accounting. Basis for fixing selling prices: As the prices of the cost object, i. However, the basis for ascertaining the price is the total cost of production and the cost accounting techniques helps in determining it. Along with that, it acts as a guide for estimating prices for tender and quotations. Another important objective of the cost accounting system is to control the costs. It keeps a check on the expenses made by the company, against the set standards and the deviations are recorded and reported continuously. The management works to further reduce the cost to increase the profitability of the company. Cost reduction implies the actual and permanent reduction in the cost of production without compromising with the quality and the suitability of its desired use. Determination of Closing Inventory: To ascertain the value of closing inventory at the end of the period for the preparation of financial statements of the concern. To report to the management about the inefficiencies of the workers and eliminates wastes like material, expenses, equipment, tools and so forth. It also ensures optimum utilization of resources of the organization by making sure that no machines are left idle, the workers get incentives for their performance, proper utilization of by-products and so forth. To reflect different sources of economies of scale, concerning the process, type of equipment, inputs used, the output generated etc. Cost Accounting is useful in reaching the cost of production of every unit, process, job and operation. It also assists the management in making a comparison between the actual cost and the estimated cost. Further, it also provides data on periodic intervals, i.

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Chapter 2 : About Cost Accounting - Business Central | Microsoft Docs

Management of business concerns expects from Cost Accounting a detailed cost information in respect of its operations to equip their executives with relevant information required for planning, scheduling, controlling and decision making. To be more specific, management expects from cost accounting.

The following diagram shows the workflow in cost accounting. Cost Types, Cost Centers, and Cost Objects You define cost types, cost centers, and cost objects to analyze what the costs are, where the costs come from, and who should bear the costs. You define a chart of cost types with a structure and functionality that resembles the general ledger chart of accounts. You can transfer the general ledger income statement accounts or create your own chart of cost types. Cost centers are departments and profit centers that are responsible for costs and income. Often, there are more cost centers set up in cost accounting than in any dimension that is set up in the general ledger. In the general ledger, usually only the first level cost centers for direct costs and the initial costs are used. In cost accounting, additional cost centers are created for additional allocation levels. Cost objects are products, product groups, or services of a company. These are the finished goods of a company that carry the costs. You can link cost centers to departments and cost objects to projects in your company. However, you can link cost centers and cost objects to any dimensions in the general ledger and supplement them with subtotals and titles. Cost Entries and Cost Journals Operational costs can be transferred from the general ledger. You can automatically transfer the cost entries from the general ledger to cost entries with each posting. You can also use a batch job to transfer the general ledger entries to cost entries based on daily or monthly summary posting. In cost journals, you can post cost and activities that do not come from the general ledger or are not generated by allocations. For example, you can post pure operational costs, internal charges, allocations, and corrective entries between cost types, cost centers, and cost objects individually or on a recurring basis. Cost Allocations Allocations move costs and revenues between cost types, cost centers, and cost objects. Overhead costs are first posted to cost centers and later charged to cost objects. For example, this might be done in a sales department that sells several products at the same time. Direct costs can be directly allocated to a cost object, such as a material purchased for a specific product. The allocation base that is used and the accuracy of the allocation definition have an influence on the results of cost allocations. The allocation definition is used to allocate costs first from so-called pre-cost centers to main cost centers and then from cost centers to cost objects. Each allocation consists of an allocation source and one or more allocation targets. You can allocate actual values or budgeted values by using the static allocation method that is based on a definite value, such as square footage, or an established allocation ratio of 5: You can also allocate actual values or budgeted values by using the dynamic allocation method with nine predefined allocation bases and 12 dynamic date ranges. Cost Budgets You can create as many cost budgets as you want. You can copy the cost budget to the general ledger budget and vice versa. You can transfer budgeted costs as actual costs. Cost Reporting Most reports and statistics are based on the posted cost entries. You can set the sorting of the results and use filters to define which data must be displayed. You can create reports for cost distribution analysis. In addition, you can use the standard account schedules to define how your reports for the chart of cost types are displayed.

Chapter 3 : What is Cost Accounting? definition and objectives - Business Jargons

Cost accounting had its roots in manufacturing businesses, but today it extends to service businesses. For example, a bank will use cost accounting to determine the cost of processing a customer's check and/or a deposit.

For example, in some companies, machine cost is segregated from overhead and reported as a separate element altogether, and payroll costs are sometimes separated form other production costs. Classification of costs[edit] Classification of cost means, the grouping of costs according to their common characteristics. The important ways of classification of costs are: By Nature or Traceability: Direct Costs and Indirect costs. Direct costs are assigned to Cost Object. Indirect costs are allocated or apportioned to cost objects. Costs are classified according to their behavior in relation to change in relation to production volume within given period of time. Fixed Costs remain fixed irrespective of changes in the production volume in given period of time. Variable costs change according to volume of production. Semi-variable costs are partly fixed and partly variable. Controllable costs are those which can be controlled or influenced by a conscious management action. Uncontrollable costs cannot be controlled or influenced by a conscious management action. Normal costs arise during routine day-to-day business operations. Abnormal costs arise because of any abnormal activity or event not part of routine business operations. Historical costs and predetermined costs. Historical costs are costs incurred in the past. Predetermined costs are computed in advance on basis of factors affecting cost elements. By Decision making Costs: These costs are used for managerial decision making. Marginal cost is the change in the aggregate costs due to change in the volume of output by one unit. This cost is the difference in total cost that will arise from the selection of one alternative to the other. It is the value of benefit sacrificed in favor of an alternative course of action. The relevant cost is a cost which is relevant in various decisions of management. This cost is the cost at which existing items of material or fixed assets can be replaced. Thus this is the cost of replacing existing assets at present or at a future date. These costs are the costs which are incurred if the operations are shut down and they will disappear if the operations are continued. These costs are normally fixed costs. The cost incurred by a company for providing production, administration and selling and distribution capabilities in order to perform various functions. The specific problem is: July Main article: This allowed the full cost of products that were not sold in the period they were produced to be recorded in inventory using a variety of complex accounting methods, which was consistent with the principles of GAAP Generally Accepted Accounting Principles. It also essentially enabled managers to ignore the fixed costs, and look at the results of each period in relation to the "standard cost" for any given product. This method tended to slightly distort the resulting unit cost, but in mass-production industries that made one product line, and where the fixed costs were relatively low, the distortion was very minor. An important part of standard cost accounting is a variance analysis , which breaks down the variation between actual cost and standard costs into various components volume variation, material cost variation, labor cost variation, etc. The development of throughput accounting[edit] Main article: Throughput accounting As business became more complex and began producing a greater variety of products, the use of cost accounting to make decisions to maximize profitability came into question. Management circles became increasingly aware of the Theory of Constraints in the s, and began to understand that "every production process has a limiting factor" somewhere in the chain of production. As business management learned to identify the constraints, they increasingly adopted throughput accounting to manage them and "maximize the throughput dollars" or other currency from each unit of constrained resource. Throughput accounting aims to make the best use of scarce resources bottle neck in a JIT Just in time environment.

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Chapter 4 : Small Business Cost Accounting Standards | www.nxgvision.com

Cost. There are several factors involved in determining the cost of an accounting firm. The price quoted will depend on the firm's competition, reputation and the type of service offered.

Cost accounting can be most beneficial as a tool for management in budgeting and in setting up cost control programs, which can improve net margins for the company in the future. One key difference between cost accounting and financial accounting is that while in financial accounting the cost is classified depending on the type of transaction, cost accounting classifies costs according to information needs of the management. During the early 19th century when David Ricardo and T. By the beginning of the 20th century , cost accounting had become a widely covered topic in the literature of business management. Types of Cost Accounting Standard Cost Accounting This type of cost accounting uses ratios to compare efficient uses of labor and materials to produce goods or services under standard conditions. Assessing these differences is called a variance analysis. Traditional cost accounting essentially allocates cost based on one measure, labor or machine hours. Some of the issues associated with cost accounting are that this type of accounting emphasizes labor efficiency despite the fact that it makes up a comparatively small amount of the costs for modern companies. Activity Based Costing The Charter Institute of Management Accountants defines activity-based accounting as, "an approach to the costing and monitoring of activities which involves tracing resource consumption and costing final outputs, resources assigned to activities, and activities to cost objects based on consumption estimates. The latter utilize cost drivers to attach activity costs to outputs. The way these costs are assigned to cost objects are first decided in an activity analysis, where appropriate output measures are cost drivers. Accountants using activity-based costing will pass out a survey to employees who will then account for the amount of time they spend on different tasks. This gives management a better idea of where their time and money is being spent. Most accounting practices for manufacturing work off the assumption that whatever is being produced is done in a large scale. That specific relationship is called the contribution margin. The contribution margin is calculated by dividing revenue minus variable cost by revenue. This type of analysis can be used by management to gain insight into potential profits as impacted by changing costs, what types of sales prices to establish, and types of marketing campaigns. These are usually things like the payment on a building or a piece of equipment that is depreciating at a fixed monthly rate. An example could be a coffee roaster, which after receiving a large order of beans from a far-away locale, has to pay a higher rate for both shipping, packaging, and processing. Operating costs are costs associated with the day-to-day operations of a business. These costs can be either fixed or variable depending. Direct costs are the costs related to producing a product. If a coffee roaster spends 5 hours roasting coffee, the direct costs of the finished product include the labor hours of the roaster and the cost of the coffee green.

Chapter 5 : Cost Accounting

Cost accounting is an accounting method that aims to capture a company's costs of production by assessing the input costs of each step of production as well as fixed costs, such as depreciation of.

Meaning, Objectives, Principles and Objections Article shared by: Here we detail about the meaning, objectives, principles, objections against and evolution and development of cost accounting. Cost accounting is the classifying, recording and appropriate allocation of expenditure for the determination of the costs of products or services, and for the presentation of suitably arranged data for purposes of control and guidance of management. It includes the ascertainment of the cost of every order, job, contract, process, service or unit as may be appropriate. It deals with the cost of production, selling and distribution. It is thus the provision of such analysis and classification of expenditure as will enable the total cost of any particular unit of production or service to be ascertained with reasonable degree of accuracy and at the same time to disclose exactly how such total cost is constituted i. Thus, cost accounting relates to the collection, classification, ascertainment of cost and its accounting and control relating to the various elements of cost. It establishes budgets and standard costs and actual cost of operations, processes, departments or products and the analysis of variances, profitability and social use of funds. Thus, cost accounting has the following features: It is a process of accounting for costs. It records income and expenditure relating to production of goods and services. It provides statistical data on the basis of which future estimates are prepared and quotations are submitted. It is concerned with cost ascertainment, cost control and cost reduction. It establishes budgets and standards so that actual cost may be compared to find out deviations or variances. It involves the presentation of right information to the right person at the right time so that it may be helpful to management for planning, evaluation of performance, control and decision making. Difference between Costing and Cost Accounting: Main differences between costing and cost accounting are given as under: Objectives of Cost Accounting: Objectives of cost accounting are ascertainment of cost, fixation of selling price, proper recording and presentation of cost data to management for measuring efficiency and for cost control and cost reduction, ascertaining the profit of each activity, assisting management in decision making and determination of break-even point. The aim is to know the methods by which expenditure on materials, wages and overheads is recorded, classified and allocated so that the cost of products and services may be accurately ascertained; these costs may be related to sales and profitability may be determined. Yet with the development of business and industry, its objectives are changing day by day. Following are the main objectives of cost accounting: To ascertain the cost per unit of the different products manufactured by a business concern; 2. To provide a correct analysis of cost both by process or operations and by different elements of cost; 3. To disclose sources of wastage whether of material, time or expense or in the use of machinery, equipment and tools and to prepare such reports which may be necessary to control such wastage; 4. To provide requisite data and serve as a guide for fixing prices of products manufactured or services rendered; 5. To ascertain the profitability of each of the products and advise management as to how these profits can be maximised; 6. To exercise effective control if stocks of raw materials, work-in-progress, consumable stores and finished goods in order to minimise the capital locked up in these stocks; 7. To reveal sources of economy by installing and implementing a system of cost control for materials, labour and overheads; 8. To advise management on future expansion policies and proposed capital projects; 9. To present and interpret data for management planning, evaluation of performance and control; To help in the preparation of budgets and implementation of budgetary control; To organise an effective information system so that different levels of management may get the required information at the right time in right form for carrying out their individual responsibilities in an efficient manner; To guide management in the formulation and implementation of incentive bonus plans based on productivity and cost savings; To supply useful data to management for taking various financial decisions such as introduction of new products, replacement of labour by machine etc. To help in supervising the working of punched card accounting or data processing through computers; To organise the internal audit system to ensure effective working of different departments; To organise cost reduction programmes with the help of different departmental managers; To provide specialised services of cost audit in order to prevent the errors and frauds and to facilitate prompt and reliable information to management; and To find out costing profit or loss by identifying with revenues the costs of those products or services by selling which the revenues have resulted. Broadly speaking, the above objectives can be re-grouped under the following three heads: This objective is achieved through fixation of targets, ascertainment of actuals, comparison of actuals with targets, analysis of reasons of deviations between actuals and targets and reporting deviations to management for taking corrective action. Objections Against Cost Accounting: A number of objections are generally raised against the introduction of costing on various grounds. Following are some of the important objections usually raised: It has been argued that costing is of recent origin and that industries prospered in the past and are still prospering without the aid of costing and, therefore, expenditure incurred in installing a costing system would be an unnecessary expenditure. This argument overlooks the fact that modern industries are running under highly competitive conditions and that every manufacturer should know the actual cost of production to decide how far he can reduce the selling price. It is argued that modern methods of costing are inapplicable to many types of industries. It is true that costing cannot be applied with advantage to trading concerns and concerns of small size. But in many cases some methods of costing can always be devised to suit the requirements of the business. It should be clearly understood that there is no stereotyped system of costing which can be applied to all types of industries. The system of costing should be so devised as to suit the business but not the business to suit the system. Failure in Many Cases: It is argued that the adoption of costing system failed to produce the desired results in many cases and, therefore, the system is defective. The failure of a system may be due to several causes such as apathy or indifference of management, lack of adequate facilities, non-co-operation or opposition from the employees. So it is hasty to find fault with the system, if it fails to produce the desired results. Mere Matter of Forms and Rulings: It is argued that after some time, a costing system degenerates into a matter of forms and rulings. This is not the fault of the system. It is the fault of the way in which the system is maintained. Forms and rulings are essential for a costing system but they must be revised and brought up-to-date in the light of altered conditions. If this is not done, the system is bound to degenerate into a mere matter of forms and rulings. It is said that the cost involved in installing and working a cost system is out of all proportions to the benefits derived therefrom. It may be stated in this connection that a costing system must be a profitable investment and should produce benefits commensurate with the expenditure incurred on the system. If care is taken to devise a costing system to suit the requirements of the industry and avoid unnecessary elaboration, expenditure incurred in installing and operating the system will be a profitable investment and will bring adequate return. General Principles of Cost Accounting: Following are the main principles of Cost Accounting: Cause-effect relationship should be established for each item of cost. Each item of cost should be related to its cause as minutely as possible and the effect of the same on the various departments should be ascertained. A cost should be shared only by those units which pass through the departments for which such cost has been incurred. Charge of Cost Only after its Incurrence: Unit cost should include only those costs which have been actually incurred. For example unit cost should not be charged with selling cost while it is still in factory. Past costs which could not be recovered in past should not be recovered from future costs as it will not only affect the true results of future period but will also distort other statements. Exclusion of Abnormal Costs from Cost Accounts: All costs incurred because of abnormal reasons like theft, negligence should not be taken into consideration while computing the unit cost. If done so, it will distort the cost figures and mislead management resulting in wrong decisions. To lessen the chances of any mistake or error, cost ledgers and cost control accounts, as far as possible, should be maintained on double entry principles. This will ensure the correctness of cost sheets and cost statements which are prepared for cost ascertainment and cost control. Evolution and Development of Cost Accounting: Widespread growth of industrialisation in the western world during the last half of the 19th century gave rise to the development of cost accounting. With the advent of the factory system, necessity for accurate cost information was felt to bring efficiency in production. In spite of this, there was slow development of cost accounting during the 19th century. To quote Eldon S. Most of the literature until this time emphasized the procedures for the calculation of prime costs only. Necessity of cost accounting is felt more if overheads form a significant portion of total cost as we will see in t he course of our discussion in the book. A tendency among the cost accountants to keep their costing methods strictly secret was also responsible for slow development of cost accounting. Until the late 19th and early 20th centuries, manufacturing processes were simple and firms were producing a small variety of products. Because of these facts also, development, cost accounting was slow. The most rapid development in cost accounting took place after with the growth of heavy industry and mass production methods when costs i. The scientific management movement led by Taylor gave impetus to the development of cost accounting because it contributed to the use of standard costs in planning manufacturing operations and in evaluating performance. The development of cost accounting in India is of recent origin and it started gaining importance after the independence of the country when the Indian Government started laying emphasis on the industrial development of the country. Further, provision of cost audit under section B of the Companies Act has given impetus to the development of cost accounting in India. The Vivian Bose Enquiry Commission brought to light the various malpractices prevalent in the manufacturing establishments and it was thought that the financial audit for the audit of financial accounts at the end of the year was insufficient to judge the real efficiency of working of manufacturing organisations. As a result, the concept of cost audit emerged to get the best utilisation of the resources of the country which are used in the manufacturing organisations and the Government was given the power for ordering cost audit under section B of the Companies Act, The Government may appoint a cost auditor to conduct cost audit where it is necessary:

Chapter 6 : Importance of cost accounting to business concerns

In , the small business nonprofit organization SCORE compiled statistics about small business accounting www.nxgvision.coming to SCORE, most small business owners spend at least $1, per year on accounting administrative costs, internal expenses, and legal fees.

This topic defines the key terms that are used in cost accounting. Key Terms The following table shows definitions of the key terms in cost accounting. Term Definition Allocation key The allocation key is the basis that is used to allocate costs. It is typically a quantity, such as square meters occupied, number of employees, or man-hours used. For example, two departments, with 20 and 10 employees respectively, share canteen costs. The costs are distributed between the departments by using an allocation key that represents the number of employees. Two thirds of the costs are allocated to the first department, and one third of the costs are allocated to the second department. Allocation source The allocation source establishes which costs are allocated. Allocations are defined in allocation source and allocation target tables. Each allocation consists of an allocation source and one or more allocation targets. For example, all costs for the heating cost type, which is an allocation source, can be allocated to the workshop, production, and sales cost centers, which are three allocation targets. Allocation target The allocation targets determine where the costs are allocated. Cost accounting In cost accounting, actual costs of operations, processes, departments, or products are recorded. These costs are allocated to cost centers and cost objects by using different cost allocation methods. Managers use statistics and reports, such as cost distribution sheet and profit and loss analysis to make decisions and reduce costs. Cost accounting retrieves data from the general ledger, but works independently. Therefore transactions posted in cost accounting do not affect the data in the general ledger. Cost type The chart of cost types has the same function as the chart of accounts in the general ledger. They are often structured similarly. Therefore it is possible to transfer the general ledger chart of accounts to the chart of cost types and then modify it. The chart of cost types can also be created from scratch. Cost centers can be synchronized with dimensions in the general ledger. It is also possible to add new cost centers and define their own sorting with subtotals. Cost object Cost objects are products, product groups or services of a company, the finished goods of a company, that in the end carry the costs. Cost objects can be synchronized with dimensions in the general ledger. It is also possible to add new cost objects and define their own sorting with subtotals. Cost allocation Cost allocation is a process of allocating costs to cost centers or cost objects. For example, the wage of the truck driver of the sales department is allocated to the sales department cost center. It is not necessary to allocate the wage cost to other cost centers. Another example is that the cost of an expensive computer system is allocated to the products of the company that use the system. Dynamic allocation Dynamic allocations are dependent on changeable allocation bases, for example, the number of department employees, or the sales revenue of the project within a certain period of time. There are nine predefined dynamic allocation bases that users can define by using five filters. Direct cost Direct costs are the costs that can be directly allocated to a cost object, for example, material purchase for a specific product. Fixed cost Fixed costs are the costs that are not dependent on the level of goods or services produced by the company. They tend to be time-related, such as salary or rent being paid per month. They are in contrast to variable costs, which are volume-related, and are paid per quantity produced. Indirect cost Indirect costs are not directly accountable to a cost object, such as a particular function or product. Indirect costs may be either fixed or variable. Indirect costs can be tax, administration, personnel, and security costs and are also known as overhead costs. Level Level is used to define allocation order. Level is defined as a number between 1 and The allocation posting follows the order of the levels. For example, level ensures that first administration is allocated to workshop before workshop is allocated to vehicle and production. Static allocation Static allocations are based on a fixed set of values, for example, the square meters used, or an established allocation ratio, such as 5: Operational cost Operational costs are the recurring expenses which are related to the operation of a business, a device, and a component. Overhead cost Overhead costs refer to ongoing expenses of operating a business. They are all costs on the income statement except for direct labor, direct materials, and direct expenses. Overhead costs include accounting fees, advertising, depreciation, insurance, interest, legal fees, rent, repairs, supplies, taxes, telephone bills, travel, and utilities costs. Step variable cost Step variable costs are costs that change dramatically at certain points because they involve large purchases that cannot be spread out over time. For example, one employee can produce tables in a month. If the company wants to produce tables, the company needs two employees. So the cost will double. Share The portion or part that is allocated among cost centers or cost objects. Static weighting Costs are allocated according to allocation keys, which can be modified by using a multiplier. The costs are distributed between the departments by using an allocation key that represents the number of employees that eat in the canteen. In the first department, only 5 employees eat in the canteen, so this department has a multiplier of 0. The basis for allocation is 20 x 0. The total number of employees that eat in the canteen is One third of the costs are allocated to the first department and two thirds of the costs are allocated to the second department. Variable cost Variable costs are expenses that change in proportion to the activity of a business. Variable costs are the sum of marginal costs over all units produced. Fixed costs and variable costs make up the two components of total costs. Variant A variant is used as an optional user-defined label for allocations. The purpose of the label is to filter groups of allocation.

Chapter 7 : What are the different types of costs in cost accounting? | Investopedia

Determination of Cost: To accumulate, allocate and ascertain cost for each cost object is the primary objective of the cost accounting. Basis for fixing selling prices: As the prices of the cost object, i.e. the product is determined by the external factors such as market demand for the product, competitor's price, etc.

There is more to accounting than accounting. Cost accounting is something a lot of business owners rarely think about. Businesses that understand cost accounting do well in these economic times and are more profitable than their competitors. Cost accounting is a specialized branch of accounting, which involves classifications, accumulation, assignment and control of costs. The use of cost accounting concepts and practices is required for a company to be successful. Cost accounting helps managers make better decisions by providing key information for planning and controlling. Companies need to measure their costs and then understand the behaviour of those costs over varying conditions such as changes in the volume of goods or services produced. Once this has been done, the costs can be assigned to the items produced or services provided and the profitability of each can be determined. Ensure your company survives, and thrives, now by improving your understanding of your costs. The importance of cost accounting is as follows: It is difficult to indicate where the work of cost accountant ends and managerial control begins. The advantages are as follows: The producer can take necessary help from his costing records. It helps the management in fixing selling prices of product by providing detailed cost information. An efficient costing system benefits employees through incentives plan in their enterprise, etc. As a result both the productivity and earning capacity increases. They can base their judgement about the profitability and prospects of the enterprise upon the studies and reports submitted by the cost accountant. The overall economic developments of a country take place due to efficiency of production. Managers rely on cost accounting to provide an idea of the actual cost of processes, departments, operations or product which is the foundation of their budget, allowing them to analyze fluctuation and the way funds are used socially for profit. As a tool for internal use, versus a tool for external users like financial accounting, cost accounting does not need to follow the GAAP standards Generally Accepted Accounting Principles because its use is more pragmatic. Cost accounting creates a financial value out of the production of a product, measuring currency that is nominal into units that are measured by convention. Any distortions in cost that were caused by calculating what the overhead of a product is versus what a unit cost is for Page 2 of 14 companies that specialize in only one specific product are very minor in industries that mass produce that product with a low fixed cost. Understanding why costs vary compared to what was actually planned helps a manager to save a company money by taking actions that are appropriate to correct that variation in the future. Variance analysis is a very important part of cost accounting because it breaks down each variances into many different components of standard cost and actual cost. Some of these components are material cost variation, volume variation and labor cost variation. Cost accounting is a very important part of the management accounting process. Well, management accounting adds one more dimension to this domain. A management accountant acts as a planner, controller and decision-making facilitator for management. Management accounts are specifically for the use of managers within a particular company. Managers are involved in the decision making process. They run the business at tactical and operational level. The need of information and the use of management accounts make it distinguishable from financial accounting. Cost accounting is an important part of management accounting that requires analysis of cost structures, cost application and statement preparation. A Management Accountant processes financial data and communicates it as information to managers. A Management accountant is responsible for facilitating effective management and efficient operations. The financial information can be presented either formally or informally. However, there are no strict rules or guidelines governing the format of management reports. Management accountants focus on specific areas of an organization or specific functions and do not address the entire organization. Generally information relevant to a particular department, section or activity is required. They utilize both financial and non-financial information. The information provided is often used as an important planning tool. Based on the given data, managers can apply various techniques such as programming, the high-low method and regression analysis that can be useful in projecting future performance. Management accounts are more dynamic and need to be produced on a regular basis. There are reports such as cash flow forecasts and budgetary control that can be associated with management accounting. The management accountants present, communicate and analyses the information in different ways. It depends whether the information is for internal users or external users. It depends on the managers how they use these accounts and how often such reports are prepared. Based on this information, managers make crucial decisions and have a control over the business activities for the welfare of the business organization. Unlike financial accounts, managerial accounts focus more on the future rather than pondering over the past happenings. It is model based structure which would assist decision making. Unlike financial accounts which are used by stock holders, management accounts are used by managers. While financial accounts are publicly reported, management accounts are confidential. It is a process of identification, measurement, analysis and interpretation of information which is used for a management plan. Components of Management Accounts Preparation of financial accounts for non management groups like shareholders, creditors and tax authorities for instance are included in management accounting. Such accounting comprises of strategic management, performance management Page 3 of 14 and risk management. A management accountant uses his skills to prepare financial and decision oriented information which helps a lot while formulating policies. Therefore it is considered to be a value creating discipline. Management accountants focus more on the future of an organization. Traditional and innovative methods Management accounting practices may be traditional or innovative. Such traditional and innovative techniques vary from one another by their cost control approaches. Cost control is the main focus of management accounts. In traditional methods, variance analysis is used to compare actual and budgeted costs. In innovative techniques, lifecycle cost analysis and activity based costing are used to make such comparisons. A managerial accountant could control the cost of manufacture through lifestyle costing and could make changes in the product with activity based costing. Lifecycle costing and activity based costing also help to avoid situations of machine breakdowns and reduces cost of raw materials. Types of Management Accounting Management accountants do dual reporting which includes interaction with the business team and with the financial division of a corporate. In corporations like banks, publishing houses and telecommunication companies IT costs poses as a big expense. The management accountant works with the IT department to obtain IT cost transparency. Lean accounting suits companies with mass production and does not recommend any business practices at production stages. Resource consumption accounting is a dynamic, principal based approach which provides decision support information. Throughput accounting involves interdependencies of modern production systems. This discipline of accounts is a very important part of Chartered Accountant courses. Introduction Enterprise Resource Planning is the latest high end solution, information technology has lent to business application. These days we are living in a globalized world, where competition is not absent. This is why it is essential for managers of the enterprise to develop different strategies to satisfy client needs, many of which have become hard to see. They are trying to anticipate what clients will want or need, and in that way they work to offer customized products. Companies are looking for software that can be capable of administrating every aspect of their business integrally. Many of them have been seeking new technological tools that can optimize their internal procedures and make them more efficient. The ERP solutions seek to streamline and integrate operation processes and information flows in the company to synergise the resources of an organization namely men, material, money and machine through information. The emergence of ERP systems offer businesses a set of integrated application modules which span most business functions Scapens and Jazayeri, The aim of this paper is to demonstrate the impact of ERP implementation as a new system on management accounting practices. The management accounting and ERP system will be introduced and clarify how are they working together. This paper will view a definition of an ERP system implementation, defining the management accounting, the dimensions of management accounting such as the roles and attributes of management accounting, finally implications of impact ERP implementation on management accounting. ERP system implementation ERP enterprise resource planning is an industry term for the broad set of activities supported by multi-module application software that help a manufactures or other business manage the important parts of its business, including product planning, parts purchasing, maintaining inventories, interacting with suppliers, providing customer service, and tracking orders [Olson]. Implementing an ERP package has to be done on a phased manner. Step by step method of implementing will yield a better result than big-bang introduction. The normal steps involved in implementation of an ERP are as below: Design and customization Phase: Management accounting is often defined as a system that provides useful information for managers in terms of decision making, planning, control and performance evaluation Drury, , p. A definition by Atkinson et al. Management accounting measures and reports financial and non-financial information that helps managers make decisions to fulfill the goals of an organization. Managers use management accounting information to choose, communicate and implement strategy, coordinate product design, production and marketing decisions, Management accounting focuses on internal reporting, and Management accounting is future oriented. Attributes of a good management-accounting system The management accounting can be success if contains some attributes which enhance its process such as the following attributes: The management accounting can be success if contains some attributes which enhance its process such as the following attributes: Good management accounting information has three attributes: The impact of ERP implantation on management accounting system The involvement of management accountants is seen as another important success factor for ERP implementations. Management accountants play a critical role in providing data and information to manage the business, their participation is critical to ensure that the needed data are available and so that the management accountants will know how the data are obtained and reported. Literature review has shown that involvement of the management accountants results in better outcomes in the ERP implementation. The more active the role played by the management accountants, the higher the level of perceived success for the ERP implementation.

Chapter 8 : Cost Accounting Standards - Wikipedia

A method of accounting in which all costs incurred in carrying out an activity or accomplishing a purpose are collected, classified, and www.nxgvision.com data is then summarized and analyzed to arrive at a selling price, or to determine where savings are possible.

Title 48 CFR Negotiated contracts not exempt in accordance with 48 CFR A CAS-covered contract may be subject to either full or modified coverage. The rules for determining whether full or modified coverage applies are in 48 CFR See 48 CFR Foreign concerns do not include foreign governments or instrumentalities. Exceptional circumstances exist only when the benefits to be derived from waiving the CAS outweigh the risk associated with the waiver. The determination that exceptional circumstances exist must-- i Be set forth in writing; and ii Include a statement of the specific circumstances that justify granting the waiver. The contracting officer must then ensure that the offeror has made the required solicitation certifications and that required Disclosure Statements are submitted. Also see 48 CFR In this event, the contractor shall submit the required Disclosure Statement and the CFAO shall make a determination of adequacy as soon as possible after the award. Also, the CFAO shallâ€" i If the Disclosure Statement is adequate, notify the contractor in writing, and provide a copy to the auditor with a copy to the contracting officer if the proposal triggers submission of a Disclosure Statement. The notice of adequacy shall state thatâ€" A The disclosed practices are adequately described and the CFAO currently is not aware of any additional practices that should be disclosed; B The notice is not a determination that all cost accounting practices were disclosed; and C The contractor shall not consider a disclosed practice, by virtue of such disclosure, an approved practice for estimating proposals or accumulating and reporting contract and subcontract cost data; or ii If the Disclosure Statement is inadequate, notify the contractor of the inadequacies and request a revised Disclosure Statement. Such action should include requesting a revised Disclosure Statement that corrects the CAS noncompliance. Noncompliances with Part 31 shall be processed separately. For subcontract awards, the contractor awarding the subcontract must follow the procedures at Offerors shall state whether or not the award of a contract would require a change to an established cost accounting practice affecting existing contracts and subcontracts see The contracting officer shall notify the CFAO if the offeror states that a change in cost accounting practice would be required. Prior to making an equitable adjustment under the applicable paragraph s that address a required change at Contractors shall not receive an equitable adjustment that will result in increased costs in the aggregate to the Government prior to the applicability date unless the CFAO determines that the unilateral change is a desirable change. The requirements for contract price and cost adjustments do not apply to compliant cost accounting practice changes that are directly associated with external restructuring activities that are subject to and meet the requirements of 10 U. However, the disclosure requirements in This section applies to required, unilateral, and desirable changes in cost accounting practices. The CFAO shall-- 1 If the description of the change is both adequate and compliant, notify the contractor in writing and-- i For required or unilateral changes except those requested to be determined desirable changes , request the contractor submit a general dollar magnitude GDM proposal by a specified date, unless the CFAO determines the cost impact is immaterial; or ii For unilateral changes that the contractor requests to be determined desirable changes, inform the contractor that the request shall include supporting rationale and-- A For any request based on the criteria in The GDM proposal-- 1 Provides information to the CFAO on the estimated overall impact of a change in cost accounting practice on affected CAS-covered contracts and subcontracts that were awarded based on the previous cost accounting practice; 2 Assists the CFAO in determining whether individual contract price or cost adjustments are required; and 3 The contractor may submit a detailed cost-impact DCI proposal in lieu of a GDM proposal provided the DCI proposal is in accordance with paragraph g of this section. The GDM proposal-- 1 Shall calculate the cost impact in accordance with paragraph h of this section; 2 May use one or more of the following methods to determine the increase or decrease in cost accumulations: A Fixed-price contracts and subcontracts. B Flexibly-priced contracts and subcontracts. If the cost impact is immaterial, the CFAO shall notify the contractor in writing and conclude the cost-impact process with no contract adjustments. If necessary, the CFAO may request that the contractor submit a revised GDM proposal by a specified date with specific additional data needed to resolve the cost impact e. The DCI proposalâ€" 1 Shall calculate the cost impact in accordance with paragraph h of this section; 2 Shall show the estimated increase or decrease in cost accumulations for each affected CAS-covered contract and subcontract unless the CFAO and contractor agree to-- i Include only those affected CAS-covered contracts and subcontracts exceeding a specified amount; and ii Estimate the total increase or decrease in cost accumulations for all affected CAS-covered contracts and subcontracts, using the results in paragraph g 2 i of this section; 3 May be in any format acceptable to the CFAO but, as a minimum, shall include the requirements at paragraphs e 3 i and ii of this section; and 4 When requested by the CFAO, shall identify all affected contracts and subcontracts. The cost impact calculation shall-- 1 Include all affected CAS-covered contracts and subcontracts regardless of their status i. A When the estimated cost to complete using the changed practice exceeds the estimated cost to complete using the current practice, the difference is increased cost to the Government. B When the estimated costs to complete using the changed practice is less than the estimated cost to complete using the current practice, the difference is decreased cost to the Government. A When the estimated cost to complete using the changed practice is less than the estimated cost to complete using the current practice, the difference is increased cost to the Government. B When the estimated cost to complete using the changed practice exceeds the estimated cost to complete using the current practice, the difference is decreased cost to the Government. The associated increase or decrease is based on the difference between the negotiated incentives, fees and profits and the amounts that would have been negotiated had the cost impact been known at the time the contracts and subcontracts were negotiated. If the contractor does not submit the accounting change description or the proposals required in paragraph d or g of this section within the specified time, or any extension granted by the CFAO, the CFAO shall-- 1 Estimate the general dollar magnitude of the cost impact on affected CAS-covered contracts and subcontracts; and 2 Take one or both of the following actions: Prior to making any contract price or cost adjustments under the applicable paragraph s addressing noncompliance at If immaterial, the CFAO shall-- i Inform the contractor in writing that-- A The noncompliance should be corrected; and B If the noncompliance is not corrected, the Government reserves the right to make appropriate contract adjustments should the noncompliance become material in the future; and ii Conclude the cost-impact process with no contract adjustments. The CFAO shall-- i When the description of the change is both adequate and compliant-- A Notify the contractor in writing; B Request that the contractor submit by a specified date a general dollar magnitude GDM proposal, unless the CFAO determines the cost impact is immaterial; and C Follow the procedures at paragraph b 4 of this section if the CFAO determines the cost impact is immaterial. The GDM proposal-- 1 Shall calculate the cost impact in accordance with paragraph h of this section; 2 May use one or more of the following methods to determine the increase or decrease in contract and subcontract price or cost accumulations, as applicable: If the cost impact is immaterial, the CFAO shall follow the requirements in paragraph b 4 of this section. If necessary, the CFAO may request the contractor submit a revised GDM proposal by a specified date, with specific additional data needed to resolve the cost impact e. The DCI proposalâ€" 1 Shall calculate the cost impact in accordance with paragraph h of this section. The CFAO shall-- 1 Separately identify interest on any increased cost paid, in the aggregate, as a result of the noncompliance; 2 Compute interest from the date of overpayment to the date of repayment using the rate specified in 26 U. The associated increase or decrease is based on the difference between the negotiated incentives, fees, and profits and the amounts that would have been negotiated had the contractor used a compliant practice; 6 Determine the cost impact of each noncompliance that affects both cost estimating and cost accumulation by combining the cost impacts in paragraphs h 3 , h 4 , and h 5 of this section; and 7 Calculate the increased cost to the Government in the aggregate. If the contractor does not correct the noncompliance or submit the proposal required in paragraph d or f of this section within the specified time, or any extension granted by the CFAO, the CFAO shall follow the procedures at However, the CFAO has the sole authority for negotiating and resolving the cost impact. A A required change and a unilateral change. B A required change and a noncompliance. C A desirable change and a unilateral change. D A desirable change and a noncompliance. A One or more unilateral changes. B One or more noncompliances. C Unilateral changes and noncompliances; and iii May consider the cost impacts of a unilateral change affecting two or more segments to be a single change if-- A The change affects the flow of costs between segments; or B Implements a common cost accounting practice for two or more segments. The CFAO shall-- 1 Negotiate and resolve the cost impact on behalf of all Government agencies; and 2 At the conclusion of negotiations, prepare a negotiation memorandum and send copies to the auditor and affected contracting officers. A Reduce the contract price on fixed-price contracts. B Disallow costs on flexibly-priced contracts; and iii The CFAO may, in consultation with the affected contracting officers, increase or decrease individual contract prices, including contract cost ceilings or target costs on flexibly-priced contracts. In such cases, the CFAO shall limit any upward contract price adjustments on affected contracts to the amount of downward price adjustments to other affected contracts, i. In such cases, the CFAO shall limit any upward contract price adjustments to affected contracts to the amount of downward price adjustments to other affected contracts, i. In adjusting contract prices, the CFAO shall preclude payment of aggregate increased costs by disallowing costs on flexibly-priced contracts A The CFAO may, in consultation with the affected contracting officers, increase or decrease individual contract prices, including costs ceilings or target costs on flexibly-priced contracts. When a negotiated CAS price adjustment or a determination of noncompliance is required at the subcontract level, the CFAO for the subcontractor shall furnish a copy of the negotiation memorandum or the determination to the CFAO for the contractor of the next higher-tier subcontractor.

Chapter 9 : The Average Cost of an Accounting Firm for Small Business | www.nxgvision.com

Cost accounting is an accounting process that measures and analyzes the costs associated with products, production, and projects, so that correct amounts are reported on a company's financial.

Putting up with employees, catering to customers, and devising business plans will make it seem, some days, like you simply do not have time for anything outside of your work life. Having to keep your own finances is almost impossible for the small business owner, but the average cost of accounting services for small businesses are sometimes prohibitively high. In this article, AdvisoryHQ will look at bookkeeping services fees and small business accountant fees to help small business owners understand the cost of average accountant fees. We will provide you with everything you need to know about bookkeeping services for small business owners and small business accountant fees. How Much Do Bankers Make? However, bookkeeping services fees should include much more than simple data entry, as there are automated software programs that can do that for you. Some companies charge bookkeeping fees by the hour, while others charge per page. The most common option is for bookkeeping services fees to be charged via a flat fee or a fixed-price agreement. Before you actually sit down with your bookkeeper to discuss any bookkeeping services fees, you will want to have a clear idea of what exactly you will be asking your bookkeeper to do. Furthermore, they should understand how to complete tax forms and how to produce standard financial reports to help your business understand its financial situation. This is crucial to ensuring that bookkeeping services for small business owners are thoroughly beneficial. Many bookkeepers may charge less for their bookkeeping services fees if you choose not to work with them in person, but rather via email or phone. Most people who contract out their bookkeeping services fees may require that their bookkeeper have a firm grasp on accounting software, such as QuickBooks , so that all work can be done electronically and shared via email. If you choose to work via email with your bookkeeper, his or her bookkeeping fees may be lower, since travel would not be necessary. Since many small businesses may not require many hours of work, your bookkeeper may prefer to charge a minimum monthly cost for bookkeeping services fees. Depending on how much work your business finances will require, it may be better for you to organize your bookkeeping services fees on a fixed-price arrangement. Furthermore, you can find many companies that offer online services that may sync with existing accounting software. Accounting fees for a small business are generally much higher than bookkeeping services fees. Accountants generally have more education than bookkeepers and, with their CPA title, can file taxes on behalf of your business. The small business accountant cost can oftentimes end up being a pretty hefty expense for startup businesses. Furthermore, small business accountant fees should also charge help with due diligence if you are buying out another business. The average accountant fees for small businesses should also include guidance and advice to help your business continue to grow. Of course, an accountant will also keep your numbers straight and help you file your tax forms, but accounting fees for a small business, when provided by a good accountant, should also help your business discover market trends and ways your business can respond to what your finances are telling you. The accounting fees for a small business may even pay for themselves in the long run, as a good accountant will also help you with your business budget, cash flow management, and how to adequately price the products you sell at a competitive market rate. Accountant fees for small businesses may seem like a big expense, but if you find a quality accountant, the economic benefits to your business may outweigh the average accountant fees for small businesses. Just as with bookkeeping services fees, some accountants may prefer to charge for their small business accountant fees in different ways. Whereas many accountants may prefer to charge hourly rates for their accounting fees for a small business, other CPAs may be willing to charge a flat rate based on a fixed agreement. Since the average accountant fees for a small business can be one of its major expenses, it may be a good idea for you to budget a certain monthly amount for your small business accountant fees and then discuss with your CPA what services he or she can provide for that rate. Keep in mind that these estimations will vary greatly depending on specific bookkeeping services for small business owners, location, and professional certification.