

UNIT I

SUBJECT : COST & MANAGEMENT ACCOUNTING I

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CLASS : II B.A. Economics

UNIT-I: Introduction to cost accounting: Definition of cost, costing, cost accounting – Scope and Objectives of cost accounting – Cost accounting Vs. Financial accounting – Difference between cost accounting and management accounting – Advantages and Limitations of cost accounting.

COST – COSTING – COST ACCOUNTING – COST ACCOUNTANCY

COST

- Cost is commonly defined as 'sacrificed resource' for a particular thing.
- Cost can be of anything which is measurable in terms of money.

COSTING

- 'Costing' is a process for determining the cost.
- It is the technique for ascertaining the cost of production of any product or service in the business organization.

COST ACCOUNTING

- Cost Accounting is basically the next step to costing. Cost accounting involves analyzing relevant costing data, interpret it and present various management problems to management.

COST ACCOUNTANCY

- This term is over and above costing and cost accounting.
- It facilitates management with cost control initiatives, ascertainment of profitability and informed decision making.

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Cost: It refers to the actual or estimated amount of expenses incurred or to be incurred on a particular article, or activity. The concepts of costing and cost accounting are related to cost accountancy, which is commonly juxtaposed by the students. Costing is concerned with the method of assessing the cost of goods produced and services rendered, at different stages of the production process.

Cost Accounting: It is a process via which we determine the costs of goods and services. It involves the recording, classification, allocation of various expenditures, and creating financial statements. This data is generally used in financial accounting. This helps us calculate the costs of the various goods. It also involves a suitable presentation of this data for the purposes of cost control and guidance to the management. It deals with the cost of every unit, job, process, order, service, etc, whichever is applicable and includes the cost of production, cost of selling and cost of distribution.

Cost Accountancy: It is the basic application of costing techniques and cost accounting process in a business organization. So, without further ado, we are going to talk about the differences between costing and cost accounting, take a look.

COSTING Vs. COST ACCOUNTING

S.No.	BASIS FOR COMPARISON	COSTING	COST ACCOUNTING
1	Meaning	Costing refers to the practice of identifying costs of any product, service or activity, at various times and stages of production.	Cost Accounting is a method of accountings that records, classifies, allocates, summarizes, analyse, interpret and controls the cost incurred on any product, process, service or activity.
2	What is it?	Process and techniques of determining costs.	Specialized branch of Accounting.
3	Decision making	It is not used for decision making.	It is used by management for decision making.
4	Accounting principles	Accounting principles are not applied.	Application of accounting principles is important.
5	Scope	Narrow	Comparatively wide

NEED FOR COSTING

Every activity involved in production of goods or providing services involves some expenditure. This expenditure may be direct or indirect, the major purpose of such activity in business organization is to generate profit. Therefore, in order to achieve the goal of earning profit a firm should clearly identify the basic elements of a transaction which are Cost, Profit and Price.

For example, a mobile company launches a new mobile phone with excellent features to capture market. It has to incur Rs. 2000 for material, Rs. 3000 for labor, Rs. 2500 for other expenses on every set produced by it and supplied in market. The company has fixed the selling price of the mobile phone at Rs. 10,000 per piece.

Thus the cost of the phone is Rs. 7500 ($2000 + 3000 + 2500$), its selling price is Rs. 10,000, and clearly the profit per piece is Rs. 2500 ($10,000 - 7500$). The management requires all such information for purposes of planning, cost control and decision-making. Financial accounting fails to fulfil this need of management which leads to development of new system of accounting cost information of each product, job department, process, etc. is available. All these deficiencies of financial accounting gave birth to “Cost Accounting”.

IMPORTANCE OF COST ACCOUNTING

It holds importance to many different parties of business. Management, investors, employees, government and even consumers themselves benefit from cost accounting.

1] Classification of Costs

Cost is a very generic term; it needs to be classified to be of further use. Cost accounting involves the recording and classification of such costs.

Some costs are prime cost, direct cost, factory cost, selling cost etc. Such classification allows the management to control the costs and ascertain the profitability of any such processes and activities. It also helps in calculating efficiency.

2] Cost Control

An efficient business focuses on controlling the cost of inventory, labor, and various other overhead costs. Cost accounting allows them to do so.

For example to achieve maximum efficiency in their inventory management they can adopt the EOQ technique which is a costing technique.

Similarly, by analysing costs of labor and capacity of machinery their efficiency can be improved also. Cost accounting also classifies overheads into fixed, variable or controllable, uncontrollable to achieve cost control.

3] Price Determination

Cost accounting makes the basic distinction between fixed and variable costs. This is then used by management to fix the prices of products, according to the costs of the product.

This allows the management to find the most ideal price for the product or the service, not too high and not too low. Take for example a case where the economy suffers depression.

The businessman has to lower the prices of his products to survive these circumstances. So he can begin by trying to control his variable costs allow him to fix his prices.

4] Fixing of Standards

Organizations use standards to make estimates and budgets for the future. They use these as a basis to measure the actual efficiency of the process or department.

There is an entire branch in cost accounting known as Standard Costing dedicated to this process.

Importance of Cost Accounting to Others

- **Workers:** One of the biggest uses of cost accounting is that it helps us calculate efficiency. This will help the company come up with an incentive scheme for workers who show efficiency in their work, and thus they will be awarded accordingly. It is also an incentive for workers with lower efficiency to do better.
- **Government:** Costing helps the government when assessing for income tax or any other such government liabilities. It also helps set industry standards and helps with price fixing, tariff plans, cost control etc.
- **Customers:** The main aims of costing are cost control and improvement in efficiency. Both of these are very beneficial to the company. And ultimately this benefit passes on to the customers of the products or services.

SCOPE OF COST ACCOUNTING

Cost accounting is being widely applied by the production units to modify the process and maximise the profit. Following are the various applicabilities of the cost accounting techniques:



- **Cost Analysis:** Cost accounting determines the deviation of the actual cost as compared to the planned expense, along with the reason for such variation.
- **Cost Audit:** To verify the cost sheets and ensure the efficient application of cost accounting principles in the industries, cost audits are done.
- **Cost Report:** Cost reports are prepared from the data acquired through cost accounting to be analysed by the management for strategic decision making.
- **Cost Ascertainment:** To determine the price of a product or service, it is essential to know the total cost involved in generating that product or service.

- **Cost Book Keeping:** Similar to financial accounting; journal entries, ledger, balance sheet and profit and loss account is prepared in cost accounting too. Here, the different cost incurred is debited, and income from the product or service is credited.
- **Cost System:** It provides for time to time monitoring and evaluation of the cost incurred in the production of goods and services to generate cost reports for the management.
- **Cost Comparison:** It examines the other alternative product line or activities and the cost involved in it, to seek a better opportunity for generating high revenue.
- **Cost Control:** Sometimes, the actual cost of a product or service becomes higher than its standard cost. To eliminate the difference and control the actual cost, cost accounting is required.
- **Cost Computation:** When the company is engaged in the production of bulk units of a particular product or commodity, the actual per-unit cost is derived through cost accounting.
- **Cost Reduction:** It acts as a tool in the hands of management to find out if there is any scope of reducing the standard cost involved in the production of goods and services. Its purpose is to obtain additional gain.

OBJECTIVES OF COST ACCOUNTING

Cost accounting aims at eliminating the loopholes in the production process and ensures manufacturing of goods at the lowest possible cost.

Other than this, there are multiple objectives of the cost accounting practices. Let us now discuss its importance in detail:



- **Control and Reduce Cost:** Cost accounting continuously focuses on managing the cost of production per unit to improve profitability without compromising with the quality of the product.
- **Determine Selling Price:** It provides the total cost incurred in the product or service, which is the base for fixing an appropriate selling price.
- **Assist Management in Decision Making:** The reports and cost sheets generated based on cost accounting back the managerial decisions of the organization.
- **Ascertain Closing Inventory:** It determines the closing inventory value at the end of the financial year.
- **Ensure Profit from Each Activity:** Cost accounting reviews the cost and takes corrective actions at each level to ensure profitability from all business activities.
- **Budgeting:** It generates the estimated cost of products or services to assist in budget planning, implementation and control.
- **Setting Performance Standards:** It provides a standard cost of goods or services to sets a level for the future course of action.
- **Business Expansion:** It estimates the cost of production at different stages, based on this analysis, the management can plan for expansion of the business.
- **Minimizing Wastage:** Cost control and reduction so attained helps in reducing the wastage during the manufacturing process.
- **Improves Efficiency:** Cost accounting assures cost management, profit appreciation and less wastage which ultimately enhances the overall production and manufacturing process of products.

FUNCTIONS OF COST ACCOUNTING OR COST-ACCOUNTANT

According to Blocker and Weltemer 'Cost Accounting is to serve management in the execution of policies and in comparison of actual and estimated results in order that the value of each policy may be appraised and changed to meet the future conditions'.

Following are main functions of cost accounting:

- To work out cost per unit of the different products manufactured by the organisation;
- To provide an accurate analysis of this cost;

- (iii) To maintain costs to the lowest point consistent with the most efficient operating conditions. It requires the examination of each cost in the light of the service or benefit obtained so that the maximum utilization of each rupee will be obtained;
- (iv) To work out the wastage in each process of manufacture and to prepare reports as may be necessary to assist in the control of wastage;
- (v) To provide necessary data for the fixation of selling price of commodities manufactured;
- (vi) To compute profits earned on each of the products and to advise management as to how these profits can be improved;
- (vii) To help management in control of inventory so that there may be minimum locking up of capital in stocks of raw materials, stores, work-in-process and finished goods
- (viii) To install and implement cost control systems like Budgetary Control and Standard Costing for the control of expenditure on materials, labour and overheads;
- (ix) To advise management on future expansion;
- (x) To advise management on the profitability or otherwise of new lines of products;
- (xi) To carry out special cost studies and investigations which are invaluable to management in determining policies and formulating plans directed towards profitable operations.

ADVANTAGES OF COST ACCOUNTING

To the Management

1. Guide in Reducing Prices – In certain periods it becomes necessary to reduce the price even below the total cost. This will be so when there is a depression or slump. Costs, properly ascertained, will guide management in this direction.

2. Measuring Efficiency – Cost accounting will enable a concern to measure its efficiency and then to maintain and improve it. This is done by comparisons and analysis of the differences that may be observed. For instance, material costs have been increased: the increase may be due to increase in price of materials or may be due to greater wastage or may be due to inefficiency at the time of buying or unnecessarily high price paid.

3. Action against Unprofitable Activities – It reveals unprofitable activities, inefficiencies such as wastage of materials—spoilage, leakage, pilferage, scrap etc. and wastage of

resources—inadequate utilisation etc. The management is able to concentrate on profitable jobs and consider change or closure of the unprofitable jobs.

4. Facilitates Decision-Making – It provides necessary data along with information to the management to take decision on any matter, relating to the business.

5. Assists in Fixing Prices – The various types of cost accounting are much helpful in fixing the cost and selling price of a product. Thus the desired volume of production is secured at the minimum possible cost.

6. Improves Efficiency – Through the standard cost and budgetary control, remedial action can be chosen in order to improve the efficiency and implement new principles.

7. Facilitates Cost Control – It facilitates cost control possible by comparisons, product-wise or firm-wise.

8. Establishes Standard Cost – It enables the managers to find out the cost of each job and to know what it should have cost; it indicates where the losses and wastes occur before the work is finished. Standard cost is a pre-determined cost and offers a number of advantages to the management.

9. Inventory Control – An effective system and check are provided on all materials and stores. Interim profit and loss account and balance sheet can be prepared without checking the physical inventory.

10. Prevents Fraud – An effective costing system prevents frauds and manipulation, and supplies reliable cost data to the management.

11. Tool of Management Control – It provides systematic and comparative reports to the management; and in turn, corrective measures can be applied immediately. It aims to reduce waste, better selling, higher profits etc.

12. Measuring Rods – It records the performance of different groups of workers, plant and machinery etc. for measuring their comparative efficiency.

13. Future Prospects – The cost accountant not only provides the present trend, but future prospects also. On this basis, bankers, debenture holders, financial agencies etc., form an idea of the soundness of the firm before granting credits.

14. Budgeting – As cost accounting reveals actual cost, estimated cost and standard cost of products, preparation of budget is easy. Effective budget control is also possible. Thus “Cost accounting is a system of foresight and not a post-mortem examination; it turns the losses into profits, speeds up activities and eliminates wastes”.

15. Check on Accuracy – A good system of cost accounting affords an independent and most reliable check on the accuracy of financial accounts. The check operates through reconciliation of profits shown by cost accounts and financial accounts.

To the Employees

1. Sound Wage Policy – Cost accounting introduces incentive wage schemes, bonus plans etc. which bring better reward to sincere and efficient workers. Cost data aid the management in devising a suitable wage policy for the workers. Time wage system and piece rate system can be blended to provide higher wages and at the same time increasing productivity rate.

2. Higher Bonus Plans – Cost accounting leads to an increase in productivity, lowering of costs and increase in profitability. Workers get their share in profits in the form of bonus. Higher profits naturally allow higher bonus distribution.

3. Distinction between Efficient and Inefficient Workers – Cost accounting provides standards for the measurement of efficiency of workers. Efficient workers can be distinguished and their efficiency recognised and rewarded. Employees have been initiated and recommended for higher promotions. This means, increase in earnings, through the motion study and time study in doing jobs. Others get the encouragement to be more efficient and to earn more wages in the given time of work.

4. Security of Job – Employees get better remuneration, security of job etc., due to the increasing prosperity of the industries. Monetary appreciation of the efficiency of a worker is a good tonic which leads to higher rate of productivity.

To the Creditors

Bankers, creditors, investors etc., can have a better understanding of the firm, as regards the progress and prosperity, before they offer financial landings.

To the Government

1. The proper systems of cost accounting are of great use in the preparation of national plans, economic developments etc.
2. By studying the trend of cost, the government can make policies like taxation, import, export, price ceiling, granting subsidy etc.
3. Costing system has stability and cost reduction in industries. Cost audit is important and industries have to keep books of accounts to show the utilisation of materials, labour and other costs.

To the Public

1. Cost accounting removes all types of wastages and inefficiencies. These will enable the consumers to get goods at better quality and cheaper rates.
2. The public feels that the costing system facilitates the customers to pay fair price.
3. Development and prosperity of industries will create employment opportunities.
4. Cost reduction will help in curbing inflationary trends in economy.
5. A steady progress is essential for an economic growth. There are many industries closed down because of inefficient and incompetent management. All these will be removed by cost accounting.

LIMITATIONS OF COST ACCOUNTING

Cost accounting is a complex stream of accounting. It requires a lot of analysis and calculations to give accurate results. To know more about the limitations or objections about cost accounting, read below:



- ✚ Cost accounting is not sufficient alone to control or reduce the cost of products or services. It is necessary to use the data so generated to take corrective actions which require a lot of experience and expertise.
- ✚ Moreover, it differs from the financial accounting we practice in day to day life. To get an accurate result, a reconciliation statement has to be prepared.
- ✚ In the books of accounts, many entries have to be made twice; once in the final accounts and then in the cost accounts, which is a tedious process. Due to the lengthy process of duplicate entries, there is a need for additional efforts from the personnel. Thus it increases the labour charges for the organisation.
- ✚ It is mainly applicable to the industries, factories and manufacturing units where some production function takes place. It is less useful for service industries.

OBJECTIONS TO COST ACCOUNTING

Two of the principal objections against the installation of costing system in a factory are that:

(a) It is Unnecessary:

In this age of competition in the business world, a manufacturer must know the exact cost not only of each article made but also of each element of cost, so that his selling price may be reasonably fixed, neither too high price which may reduce business nor to low price which may lead to loss.

The main purpose of ascertaining costs is to provide the management with facts and information to carry on the business in the most efficient manner, and to achieve advantages of a costing system:

- (i) It enables the business to ascertain the exact cost of each specific unit of output and the extent to which each element of expenditure contributes to such cost.
- (ii) It provides a reliable basis upon which tenders and estimates may be prepared.
- (iii) It facilitates the detection and prevention of waste, leakage and inefficiency.
- (iv) It provides invaluable data for purposes of comparison.
- (v) It provides an independent and collateral check upon the accuracy of financial accounts.
- (vi) It enables unprofitable activities of the business disclosed, so that steps may be taken to eliminate or reduce them.

In view of these advantages, the objection that a costing system is unnecessary is not quite correct.

(b) It is Expensive:

When it is desired to introduce a costing system in a manufacturing business, that business must be studied in detail with special reference to its manufacturing technique and the advice of its technical staff must be obtained in framing the system of costing. The system to be adapted to a particular case must be adapted to the requirement and circumstances of that case.

A simple costing system will in many case suffice, and unnecessary elaboration must always be avoided. Elaborate costing records should only be kept when their maintenance is warranted, since a system of Cost Accounting must be profitable investment and produce a benefit commensurate with the expenditure incurred upon it. It must be simple and it must be elastic and capable of adaptation to changing conditions. Therefore, it cannot be said that a costing system is expensive.

A good management should be able to benefit greatly from the installation of Cost Accounting, but the character of management is of vital importance here. Really speaking, the cost accountant can only prepare information highlighting the points which should be studied, but action is something which is beyond the cost accountant and is a function of management itself. Unless, therefore, the management is, firstly, willing to study the

information compiled and presented by the cost accountant, secondly, capable of doing that and, thirdly, willing to take action on the basis of that information, installation of a Cost Accounting system will prove of no avail.

FINANCIAL ACCOUNTING Vs. COST ACCOUNTING

S.No	Financial Accounting	Cost Accounting
1	Records financial data of the organization. So it records all relevant monetary data	Records and summarizes cost information and data. This includes information about labour, materials and various overheads of the manufacturing process.
2	Financial accounting only deals in historical costs (only actual costs and figures)	Cost accounting uses both historical and pre-determined costs (standard costs, estimates etc.)
3	The users of the information provided by financial accounting are both internal and external users	Information provided by cost accounting is only meant for people within the firm like management, employees etc.
4	Financial accounting is mandatory for all firms. Every organization has to keep some record of its financial transactions	Cost accounting is only done by manufacturing firms. And in most cases, it is not mandatory.

5	The emphasis here is on recording the transactions/data and presenting it in the given format.	Other than recording data it also provides a system of cost control of labour, material, overhead costs
6	Financial accounts deal with the business in its entirety. So it provides us with profit or loss for the whole concern	Costing will enable us to get the profit or loss for individual products, process, job etc.
7	In financial accounting, there is no aspect of forecasting. It is simply a record of the financial position of the firm	In Cost accounting, forecasting is possible using some of the budgeting techniques
8	Financial accounting is strictly a positive science. There is rigidity in the process due to legal requirements	Cost accounting is both a positive and normative science.

COST ACCOUNTING Vs. MANAGEMENT ACCOUNTING

S.No.	Basis of Comparison	Cost Accounting	Management Accounting
1	Meaning	The recording, classifying and summarising of cost data of an organisation is known as cost accounting.	The accounting in which the both financial and non-financial information are provided to managers is known as Management Accounting.
2	Information Type	Quantitative.	Quantitative and Qualitative.
3	Objective	Ascertainment of cost of production.	Providing information to managers to set goals and forecast strategies.
4	Scope	Concerned with ascertainment, allocation, distribution and accounting aspects of cost.	Impart and effect aspect of costs.
5	Specific Procedure	Yes	No
6	Recording	Records past and present data	It gives more stress on the analysis of future projections.
7	Planning	Short range planning	Short range and long range planning
8	Interdependency	Can be installed without management accounting.	Cannot be installed without cost accounting.

METHODS OF COSTING

1. Job Costing:

Under this method costs are collected and accumulated for each job or work order or project separately. Each job can be identified separately and hence becomes essential to analyze the costs according to each job.

Normally production consists of distinct jobs or lots so that order number can identify costs. A job card is prepared for each job for cost accumulation. This method is suitable for Printers, Machine tool manufacturers, Foundries, and general engineering workshops.

2. Contract Costing:

Contract costing does not in principle differ from job costing. When the job is big and spread over long period of time, the method of contract costing is used. A separate account is kept for each individual contract. Civil engineering contractors, constructional and mechanical engineering firms, builders, etc use this method.

In contracts, when it is agreed to pay an agreed sum or percentage to cover overheads and profit to the contractors, it will be termed as 'cost plus costing'. The term cost here refers to the prime cost. Usually government contracts are assigned in this basis.

3. Batch Costing

This is an extension of job costing. A batch may represent a number of small orders or group of identical products passed through the factory in batch. Each batch is treated as a cost unit and cost is ascertained separately.

The cost per unit is determined by dividing the cost of the batch by the number of units produced in a batch. The manufacturers of biscuits, garments, spare parts and components mainly use this method.

4. Process Costing

A process refers here to a stage of production. If a product passes through different stages, each distinct and well defined, then in order to ascertain the cost at each stage or process, the process costing is used. Under this method, a separate process account is prepared and all costs incurred in that process are charged.

Normally the finished product of one process becomes the raw material of the subsequent process and a final product is obtained in the last process. As the products are manufactured in continuous process, this is also known as continuous costing. Process costing method is generally followed in textile units, chemical industries, refineries, tanneries, paper manufacture, etc.

5. Operation Costing

It is a further refinement of process costing. It is suitable to industries where mass or repetitive production is carried out or where the goods have to be stocked in semi-finished stage, to enable the execution of special orders, or for the convenient use in later operations. In this method, the cost unit is an operation. It is used in cycle manufacturing, automobile units, etc.

6. Unit Costing

This is also known as single or output costing. This method is suitable for industries where the manufacture is continuous and units are identical. This method is applied in industries like mines, quarries, cement works, brick works, etc.

In all these industries there is natural or standard unit of cost, for example, tonne of coal in collieries, tonne of cement, one thousands of bricks, etc. The object of this method is to ascertain the cost per unit of output and the cost of each element of such cost.

Here the cost account takes the form of cost sheet or statement prepared for a definite period. The cost per unit is determined by dividing the total expenditure incurred during a given period by the number of units produced during that period.

7. Operating Costing

This is suitable for industries, which render services as distinct from those, which manufacture goods. This is applied in transport undertakings, power supply companies, gas, water works, municipal services, hospitals, hotels, etc.

It is used to ascertain the cost of services rendered. There is usually a compound unit in such undertakings, for example, tonne-kilometres or passenger-kilometres in transport companies, kilo-watt-hour in power supply, patient-day in hospitals, etc.

8. Multiple Costing

It is also called as composite costing. It represents the application of more than one method of costing in respect of the same product. This is suitable for industries where a number of component parts are separately produced and subsequently assembled into a final product. In such industries each component differs from others as to price, materials used, and manufacturing processes.

So it will be necessary to ascertain the cost of each component. For this purpose process costing may be applied. To ascertain the cost of the final product batch costing may be applied. This method is used in factories manufacturing cycles, automobiles, engines, radios, typewriter, aero plane and other complex products.

ESSENTIALS OF GOOD COSTING SYSTEM

- 1. Able to Achieve-** A Costing System should be able to achieve practically by the firm. Only Planning is not required, If It can't be implemented in company then it will go in vain.
- 2. Should not be over elaborated-** The Costing System should never be introduced in firm in such a way so that it will be over elaborated. It will result in a burden for all the Employees as well as the Top Executives.
- 3. Provided in a Printed Form-** Whenever the Installation of Costing System is introduced, it should be provided in a printed form. It's because it includes so many instructions and policies which should be pre-written for the company.
- 4. Reconciliation of Cost and Financial Accounting-** The Costing should be presented in such a way so that the Results of both sets of Accounts- Cost Accounting and Financial Accounting should be reconciled.
- 5. Should be less disturbed as possible-** The Installation of a Costing system should be introduced in such a way so that it should be disturbed as little as possible for all the company.

6. **Must be Introduced gradually-** The Costing System must be introduced gradually so that all the Employees should be easy to switch to a new system.
7. **Should be Economical-** The Installation of Costing System in Cost Accounting should be economical for the firm. The Installation and Operating Cost of the Costing System should not exceed to its value of the Management.
8. **Simplicity-** The Costing System should be simple and well designed so that it should be easy to implement by all the Employees and the other staff. The facts, instructions, policies should be introduced at the right time by the right person to make it easier and simpler.
9. **No Changes with Existing Management-** The New Costing System shouldn't affect the Delegation and Responsibilities of the Management. Try to make possible very less changes by the new costing system in the management.

STEPS FOR INSTALLATION OF A COSTING SYSTEM

1. **Organizational Structure of the Company-** Studying the Organizational Structure by Cost Accountant is firstly important which comprises of the Nature of Business, Delegation, responsibilities. All these encourage the expenses to the Cost Accounting Department.
2. **Manufacturing Procedure or other process-** The Cost Accountant must know all about the Manufacturing and Cost Accounting Procedure like Incentive Schemes, cost of Machinery, Cost of Work Rates, Cost of Wages and lot more.
3. **Objectives to be Achieved-** The Objectives firm want by the New Costing System should be determined first. If the Firm has objective to know the cost then the Costing System will be simpler. If there is an Objective to know more, then the Costing System will be more detailed.

4. **Nature of Product-** Cost Accountant should also know about the Nature of Product which includes what type of Raw Material firm use in which quantity and what consumption.
5. **Type of Cost Information-** The Installation of New Costing System requires every type of Cost Information like the cost incurred at particular level or labour cost and lot more. Firm has to know all the cost Information to take remedial action for deviation.
6. **Organization of Cost Office-** The Cost Office Department should be situated near to the Factory so that there should not be a delay in the improving the Discrepancies or solving the doubts.
7. **Provide Information speedily and accurately-** In the Procedure for Installation of a Cost Accounting System, firm should provide information speedily to the Cost Accounting Department as well as accurately which is also required. It's because just give information speedily is not enough if it is not authentic. So, it should also be accurate.
8. **The Costing Staff should have access to the production-** This is the last but not the least step for the Installation of a Costing System which is Costing staff should have access to the Production Department. It's because the Production constitutes a very important part in introducing a New Costing system. By having access to the production by the Cost Accountant, they can easily know the Daily Production units, the per day Cost, direct, indirect expenses and lot more.
9. **Store Accounts-** Store Accounts include all the Raw Material Receipts and all the details about Stores Ledger and more.
10. **Labour Accounting-** It includes the Preparation of Payrolls, Pay checks and Check Labour Time while coming in the Office and leaving the Office. It also includes the leisure time spent between the Work and more.

11. **Cost Accounts-** It includes the cost of all the relative activities of Cost Accounts whether job or process or Service Accounts.
12. **Cost Control Accounts-** It includes the sum up information of all the first two points in the Duties section.
13. **Costing Department and its relationship with other Departments-** The Cost Department can do the work independently in the other Departments. The Other Departments should maintain a Good Relationship with the Cost Department and vice-versa.
14. **Authority and Responsibility-** The Installation of a New Costing System will be successful if the Authority and Responsibility is properly defined first between the Departments. In all together, everything should be clear first.

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