

P.G. SEM - IV
EC- II (ADVANCED COST ACCOUNTING)
TOPIC - SCOPE OF COST ACCOUNTING

Scope of Cost Accounting

Cost accounting is a branch of accounting that deals with the classification, recording, allocation, analysis, and control of costs associated with production and services. The scope of cost accounting has widened significantly due to industrial growth, intense competition, and the need for efficient cost management. It provides vital information to management for planning, control, and decision-making.

1. Cost Ascertainment

One of the primary scopes of cost accounting is to determine the cost of products, jobs, processes, or services. It helps in calculating the cost per unit using various costing methods such as job costing, process costing, batch costing, and contract costing.

2. Cost Classification and Analysis

Cost accounting involves classification of costs into fixed, variable, semi-variable, direct, indirect, controllable, and uncontrollable costs. Proper analysis of costs helps management understand cost behavior and take suitable corrective actions.

3. Cost Control and Cost Reduction

Cost accounting provides techniques such as standard costing, budgetary control, variance analysis, and marginal costing to control costs. It also focuses on cost reduction by eliminating wastage, improving efficiency, and adopting better production methods without affecting quality.

4. Pricing and Quotation

Accurate cost data assists management in fixing selling prices, preparing tenders, and submitting quotations. It ensures that prices cover costs and provide a reasonable margin of profit.

5. Profit Planning and Decision Making

Cost accounting helps in profit planning by providing break-even analysis, contribution analysis, and cost-volume-profit (CVP) analysis. It supports managerial decisions such as make-or-buy, shutdown or

continuation of operations, product mix selection, and expansion decisions.

6. Budgeting and Forecasting

Preparation of budgets and forecasts is an important scope of cost accounting. It helps management plan future operations, allocate resources effectively, and coordinate activities of different departments.

7. Inventory Control

Cost accounting aids in efficient inventory management through techniques like EOQ, ABC analysis, stock level fixation, and material control. This reduces carrying costs and avoids stock-outs or overstocking.

8. Performance Evaluation

Cost accounting provides information for performance measurement of departments, processes, and responsibility centers. It helps in comparing actual performance with standards and taking corrective measures.

The scope of cost accounting is wide and dynamic. It is not limited to cost calculation alone but extends to cost control, planning, decision-making, and performance evaluation. In advanced cost accounting, it serves as a powerful managerial tool for improving efficiency, reducing costs, and enhancing profitability.