

# MODULE 1

## PRELIMINARY ISSUES IN COST ACCOUNTING



# UNIT ONE

## GENERAL FRAMEWORK OF COST ACCOUNTING

### Objectives

At the end of this chapter, students should be able to understand:

- The meaning of cost accounting.
- The differences between cost accounting and financial accounting
- The differences between cost accounting and management accounting
- The roles of a cost accountant

### Learning Outcome:

At the end of this chapter, students were able to:

- Explain the meaning of cost accounting.
- Differentiate between cost accounting and financial accounting.
- Compare and contrast the functions of cost and management accounting.
- Itemize the roles of a cost accountant.

### M1.1 Purpose of Cost Accounting:

*Cost accounting is the application of accounting and costing principles, methods and techniques in the ascertainment of cost and the analysis of savings and excesses as compared with previous experience or standard (CIMA)*

Simply put, it is a branch of accounting primarily aimed at accumulation of cost incurred by an enterprise to be utilized by the management accounting segment and management for decision.

Take a look around you, consider what life is made up of and you will discover that all you do in one way or the other must have cost you something (time, talent or treasure) quantifiable in monetary terms. This you



may not have discovered because you are not conscious of the accounting implication of your activities or may not have utilized what we refer to as "cost accounting sense". Sometimes we casually say "nothing goes for nothing". Whether grammatically right or wrong, it implies that there is always a cost attached to every venture.

Cost accounting as defined above has three basic points to note namely

1. Cost accounting involves the application of accounting principles, methods and techniques
2. Cost accounting entails the ascertainment or accumulation of cost
3. Cost accounting involves analysis of savings (shortage) or overage.

Accounting in all aspects has to do with principles, systematic operation. Recall in fundamentals of financial accounting Odo and Udeh, (2017), define financial accounting as *a systematic recording, summarizing, analyzing, interpreting and communicating of financial transactions of a business.*

Moreso, financial accounting which is a component or sub division of accounting was defined as the *science and art of measurement of business transactions. Financial accounting system records the economic effect of transactions and other events on the economic resources that the company holds and on the composition of claimants on those resources*(Bhattacharyya, 2012).

Cost accounting in Odo & Udeh (2017) was equally defined as the branch of accounting that generates the procedure for accumulating data to provide information for managerial action. This goes on to affirm our assertion that accounting always involves a systematic operation of action.

Cost Accounting may equally be defined as the process of measuring, analyzing, computing and reporting the cost, profitability and performance of operations. The accountant that is in-charge of the cost accounting role is the cost Accountant. He has the following roles to play

1. Ensure that established formats for data compilation are being correctly followed at the various levels.



2. Check the accuracy of figures supplied through reasonableness checks or other independent sources.
3. Monitor the regularity of entry data to ensure timeliness
4. Raise flags where extraneous or extraordinary figures are presented
5. Prepare summaries of raw data collected showing the results from various perspectives to give a total picture. For example, sales by branch, sales by salesman, sales by period etc would reveal the total sales figures from different perspectives.
6. Draw summaries in a simple, straightforward and concise manner for busy executives.
7. Pre-empt questions by providing explanatory notes on the trends and movement observed in his reports.
8. To assist the manager in providing relevant information on materials, labour and overhead
9. To help in determining costs incurred, revenue and profit earned during a given accounting period
10. To assist in setting standards of performances and to provide feedback information for controlling purposes.
11. To help in the determination of cost of inventory carried in financial Statement
12. To help in taking appropriate corrective action whenever there is deviation from set target or goals
13. To facilitate the preparation of feasibility studies of new projects by bringing out the elements of cost that goes into different budgets and projections.
14. To help in controlling costs
15. To provide a guide in setting selling prices

### **M1:2. Cost Accounting VS. Financial Accounting**

Basically, financial accounting is meant to fulfill stewardship function of the business. Financial accounting presents reports to both the internal and external stakeholders of the firm. It is broader and more extensive in nature, unlike the cost and management accounting emphasis on functions, activities, products and processes. Such latter reports are mainly used for control and internal purposes.



Financial accounting follows a specific form of presentation based on principles established by the regulatory bodies and the standard to enable presentation of comparable reports while cost and management accounting is devised to suit the requirements of the individual organizations and do not maintain a specific format but rather presented in any form that suits the management.

### **M1:3. Cost Accounting VS. Management Accounting**

There are similarities in the objectives of cost accounting and management accounting. Both are concerned with provision of detailed, comprehensive information for internal planning, control and decision making purposes. Management accounting operates effectively if there is a sound cost accounting system to provide basic data.