

- vi) acceptance of a special order
- vii) replacement of labour with machinery

Because of the above advantages of cost accounting, its use is no more restricted to manufacturing establishments. Now-a-days, costing is used by various institutions—such as hospitals, transport undertakings, local authorities, offices, banks, educational institutions, etc.

Besides, costing is of considerable advantage to the consumers. They get products at reasonable prices due to proper costing system. To the employees of the organization, costing is beneficial in granting incentives to good work, bonus and higher wages. Costing helps the investors, bankers, lenders and shareholders in evaluating the past profitability and future prospects of the company. It ultimately benefits the economic development of the country as a whole because of efficiency in industrial operations, effective mobilisation of resources, balanced utilisation of funds and timely achievement of targets.

Check Your Progress B

- 1) Give **four** main objects of costing.
- 2) State **four** major differences between Cost Accounting and Financial Accounting.
- 3) Select and tick the most appropriate alternative to fill in the blanks.
 - i) Cost Accounting canthe future cost of production
 a) ascertain; b) forecast; c) analyse; d) estimate.
 - ii) Cost Accounting gives information to the management for the purpose of
 a) employees' welfare; b) decisions;
 c) efficiency; d) profitability.
 - iii) Cost statements form part of theaccounts of a company.
 a) published; b) statutory; c) internal; d) taxation.
 - iv) Costing is based onfigures.
 a) estimated; b) actual; c) accurate; d) projected.
 - v) Costing records must also beby management.
 a) audited; b) prepared; c) verified; d) analysed .
4. List the major advantages of the Cost Accounting.

1.7 INSTALLATION OF A COSTING SYSTEM

In view of the growing size and variety of organizations, a single system of costing cannot suit every business. The principles and procedures of costing, therefore, have to be applied in each organisation according to its own characteristics and environment. In other words, it is only a properly designed system of costing suitable to the organisation which can help its successful operation.

Before introducing a system of costing, it would be advisable to conduct a preliminary investigation to assess the exact requirements of the business in respect of: (a) product, (b) organisation, (c) manufacturing process, and (d) selling and distribution methods. Moreover, it should ensure that,

Basic Concepts

- i) the existing organisation is disturbed to the minimum;
- ii) the system is implemented gradually;
- iii) the process of costing designed for the organisation is compact and goes into meaningful details only;
- iv) the procedure is simple and economical to operate; and
- v) the system is able to generate periodical reports to various levels of management.

The two other aspects which need a proper assessment before the installation of a system of costing are:

- 1) What are the major objectives of costing in the business? For example, whether it is being introduced for fixing the prices or for instituting a system of cost control, or for both.
- 2) What are the practical difficulties in the process of introduction of the system?

1.7.1 Possible Difficulties

We must be conscious of the difficulties in introducing the system of costing and that they have to be overcome. These difficulties usually are:

- 1) Inadequate support from top management and opposition to the system by some officers.
- 2) Resistance from staff associated with the operation of the financial accounting system.
- 3) Resentment at other levels in view of the additional work expected due to the costing system.
- 4) Shortage of trained and qualified staff to handle the new system.
- 5) Heavy costs involved in the process of installation.

1.7.2 Factors to be Considered

The following factors should be considered before the installation of a system of costing:

- 1) Objective of the costing system.
- 2) Nature of the business.
- 3) Quality of the management.
- 4) Size and type of organisation, scope of authority, sources of information and reports to be submitted.
- 5) Technical aspect of the business.
- 6) Attitude and behaviour of the staff in extending co-operation to the system and the organization.
- 7) Impact of different operations on variable expenses.
- 8) Manner of reconciliation between cost and financial accounts and the possibilities of developing them into an integrated system of accounting through control accounts.
- 9) Quantum of information needs and the process of collecting the data without much labour.
- 10) Nature of the product and the type of costing system which will suit the product.

- 11) Extent to which the importance of the system can be appreciated by the supporting staff and an awareness created among them about the relevance of regular data collection.

1.7.3 Success of the Costing System

The requisites of an effective system of costing are as follows:

- 1) It suits the nature and requirements of the business.
- 2) It is simple and easy to operate. For this purpose, standard forms should be used and the objective of every record and report should be clear to all concerned.
- 3) It receives full cooperation of the staff.
- 4) It ensures promptness and regularity in flow of required information for the preparation and presentation of costing reports.
- 5) It is closely linked with the financial accounting system and makes it easier to reconcile the results obtained by cost accounts and financial accounts.
- 6) It contributes to cost control effectively.
- 7) It provides for comparison of estimates with the actual results.
- 8) There is considerable amount of flexibility in the system so that it can easily adjust with the changing conditions or requirements of the business.
- 9) The cost of installation and operation of the costing system is justified by the benefits derived from the system.

Thus, the system of costing proposed to be installed in an organisation must be properly planned and introduced carefully so that it is competent enough to deliver the desired results. Much depends upon the manner in which the system operates so as to derive its best advantage.

Check Your Progress C

- 1) State **four** major factors which you will take into account for installation of a costing system in an organisation.
- 2) State the possible difficulties faced in introducing a costing system in an organisation.
- 3) Answer **YES** or **NO** in case of the following statements and justify your answer.
 - i) Costing produces information which may also be useful to the competitors of the business.
 - ii) Wastage of labour need not be checked in an effective system of costing.
 - iii) Cost records can assist verification of results shown by the financial accounts.
 - iv) There is a standard system of costing which suits all types of organisations.
 - v) The cost of the costing system should be justified by the benefits derived from the system.
 - vi) The costing system should be independent of the financial accounting system.