

# STRATEGIC COST MANAGEMENT

## COST

Cost refers to –“the expenditure incurred in producing a product or in rendering a service”

Cost means– “the price paid for something”

Cost– represents the resources must be sacrificed to attain a particular objective

## Definition

- ▶ American Institute of certified public accountants defined cost as “cost is the amount , measured in money of cash expended or other property transferred , capital stock issued, service performed or liability incurred in consideration of goods or services received or to be received”

- Costing

Costing is defined as “the technique and process of ascertaining costs of a given thing”

Costing is defined as “classifying ,recording and appropriate allocation of expenditure for the determination of the costs of products or services”

- Cost Accounting

The process of accounting for costs which begins with recording of income and expenditure and ends with the preparation of necessary statements and reports.

# Cost Accountancy

“The application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability “

# OBJECTIVES OF COST ACCOUNTING

- Ascertainment of cost
- Cost controlling
- Determination of proper selling price
- Managerial decision making
- Matching cost with revenue
- Preparation of financial statement, p/L account and B/S
- Measures efficiency by classifying and analyzing cost data suggest various steps

# Classification of costs

1. Element wise classification
  - Direct cost
  - Indirect cost
2. Functional classification
  - Production cost
  - Administration cost
  - Selling and distribution cost
  - Research and development cost

### 3. Based on cost behavior

- Variable cost
- Fixed cost
- Semi variable cost

### 4. Based on time

- Historical cost
- Predetermined cost

### 5 Based on controllability

- Controllable cost
- uncontrollable

# Based on managerial decision

- ▶ Marginal costing
- ▶ Out of pocket cost
- ▶ Differential cost
- ▶ Sunk cost
- ▶ Notional cost or imputed cost
- ▶ Opportunity cost
- ▶ replacement cost
- ▶ Avoidable unavoidable cost



- ▶ Based on normality
- ▶ Normal cost
- ▶ Abnormal cost

# ▶ ISSUES IN DIFFERENT ELEMENTS OF COST

## ▶ Direct cost

The direct costs are those costs which can be identified easily and indisputably with a unit operation.

1. Direct materials
2. Direct labour
3. Direct expenses

## Indirect cost

These are cannot be allocated but which can apportioned to cost centers or cost units. These are called as common costs. The indirect costs are not traceable to any plant.

- ▶ Indirect material
- ▶ Indirect labour
- ▶ Indirect expenses

## Overheads

It is the aggregate of indirect material costs, indirect labor and indirect expenses.

1. Production or works overheads
2. Administration overheads
3. Selling overheads
4. Distribution overheads
5. Research costs
6. Development costs



