

Role of cost accounting and ethical consideration assignment

[Business](#)



RUNNING HEADER: Role of Cost Accounting and Ethical Consideration
Role of Cost Accounting and Ethical Consideration
Introduction
Cost accounting is used to help management understand how much it cost to run a business. Understanding the role of cost accounting is important when one is trying to put together a team of managers to help run the company. The CEO of a merchandising organization needs to hire a CFO to run the accounting system, but the CEO has little understanding of cost accounting.

The CEO will hire a consultant to help her understand the role of cost accounting, the role of ethics in cost accounting, and compare and contrast the absorption and variable costing. Role of Cost Accounting
Cost accounting is the area of accounting that record, measures, and report information about how much things cost within the organization. Cost accounting is used in the following organization: manufacturing, merchandising, and service companies, governments, universities, and not-for-profit and profit-making enterprise (Maher, 1994, p. 3).

The role of cost management plays in helping an organization to maintain a competitive advantage by creating more value at a lower cost by efficiently managing an organization's value chain of activities, processes, and functions (Hilton, 2005). The information from the cost reports should be interpreted and presented in a way that will be useful for management. Budget is the key for planning and controlling. The budget contains cost accounting data. Management will not be able to set an optimal price for a product or service can not be decide without knowing the cost of what is to be sold (Griffin, 2008).

Cost accounting has traditionally considered a manufacturing support system. The cost object of an organization is the cost of anything that management believes is important. For example, the cost object could be the cost of running a department for the year, the cost of a product, the cost of a bank account, and the cost of maintenance for equipment. " Cost accounting can help management achieve the following: Formulating and 1. Formulating and implementing plans and budgets that motivate employees toward the achievement of the company goals. . Establishing cost tracking methods that allow control of operations, cost savings, and improvement in quality. 3. Controlling inventory cost, minimizing inventory investment, and determining the cost of each product or service. 4. Pricing products and services in ways that are congruent with organizational goals. 5. Making prudent decisions that impact both short-term and long-term revenues and expenses" (Griffin, 2008, p. 2). It can be challenging for cost accounting system to provide reliable useful information.

The information can be misleading depending on the preparer. Role of Ethics in Cost Accounting The accountant role in developing standards of professional ethical behaviors for the organization as well as for self should be a proactive one. " Missing in most discussions of ethics is the fact that, by definition, ethics is the part of philosophy that deals with the practical application of those actions over which we have control" (Turner, 1990, p. 1). Ethical decisions appear to be subjective, but the decisions are made in context of personal and professional lives. The individual dealing with a personal ethical response to a given situation does so within an organizational structure which itself has defined certain responses as ethical

<https://assignbuster.com/role-of-cost-accounting-and-ethical-consideration-assignment/>

or unethical” (Turner, 1990, p. 1). A conflict can arise when the ethical belief of an individual is different from the organizational belief. For example, a management can give misleading information about a project because he or she does not want the project to be terminated, so the management changes the number to reflect a positive impact instead of a negative one. Two critical factors that must be addressed by a company serious about incorporating ethics into its decision making process: the short-term versus the long-term view of what is good business, and the need to evaluate the ethical implications of a decisions as part of the decision making process, rather than as a reaction to a third party’s criticism of the decision” (Turner, 1990, p. 1). Ethical analysis needs to be instutionalized as an integral part of phases in decision making process. Compare and Contrast Absorption and Variable Cost

It is important for the CEO is the manufacturing organization to understand the different between absorption cost and variable cost. One different between the two are the way accounting treats fixed manufacturing overhead. Absorption cost is all the manufacturing overhead costs applied to the manufactured goods (Hilton, 2003). Variable cost is applied to work in process as product cost, and fixed overhead costs are expensed as period cost. Other different is the timing of when fixed overhead becomes an expense.

Variable fixed cost is expense immediately, and absorption fixed cost is inventoried until the goods are sold. Fixed cost is expense in both accounting system. Both systems have advantages and it will be up to management to

decide which works best for their organization. Below is a list of each system advantages: “ Advantages of Absorption costing ??? Fixed MOH is treated as the same as other product costs, e. g. DM, DL ??? Consistent with long-run pricing decisions that must cover full cost ??? External reporting and income tax law require AC

Advantages of Variable costing ??? Management find it easy to understand ??? Consistent with CVP analysis ??? Emphasis contribution in short-run pricing decisions ??? Profit for period not affected by changes in fixed manufactured overhead” (Hilton, 2003, p. 1). Conclusion The CEO knows the important of understanding cost accounting and how it can affect an organization. The CEO will be able to make a sound decision on whom she thinks would be a good candidate for the CFO position.

The CEO will question the candidate about his or her ethic. The CEO will also decide which cost system is better suited for the organization. Making sounds decision is the first step in producing a successful organization.

References Griffin, M. , & Jordan, R. (2008). Cost Accounting for Planning and Control. Retrieved November 30, 2008 from <http://www.flexstudy.com/catalog/schpdf.cfm?coursenum=9623a>

Hilton, R. (2003). Absorption Costing and Variable Costing. Retrieved on November 30, 2008 from <http://au.geocities.com/wingnet4/acvc.html>.

Hilton R. , Maher, M. , & Selto, F. (2006). Cost Management: Strategies for Business Decisions. New York: Wiley and Sons. Retrieved November 30, 2008, from University of Phoenix rEsource Website. Maher, M. , & Deakin, E. (1994). Cost Accounting: Its Nature and Usefulness. Cost Accounting. Retrieved on November 30, 2008.

<https://assignbuster.com/role-of-cost-accounting-and-ethical-consideration-assignment/>

Turner, R. (1990). Ethics and Professionalism: The CPA in Industry. The CPA Journal. Retrieved on November 30, 2008 from <http://www.nysscpa.org/cpajournal/old/08416230.htm>.