Cost accounting role assignment

Business

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Cost Accounting Role Cost accounting is valuable to an organization if it significantly improves the decision making process within the organization by providing accurate and timely input regarding the cost behavior in organizations. Generally based on standard accounting practices, cost accounting is one of the tools that managers utilize to determine what type and how much expenses is involved with maintaining the current business model.

At the same time, the principles of cost accounting can also be utilized to project changes to these costs in the event that specific changes are implemented. When it comes to measuring how wisely company resources are being utilized, cost accounting helps to provide the data relevant to the current situation. By identifying production costs and further defining the cost of production by three or more successive business cycles, it is possible to note any trends that indicate a rise in production costs without any appreciable changes or increase in production of goods and services.

By using this approach, it is possible to identify the reason for the change, and take steps to contain the situation before bottom line profits are impacted to a greater degree. Product development and marketing strategies are also informed by the utilization of cost accounting. In terms of product development, it is possible to determine if a new product can be produced at a reasonable price, considering the cost of raw materials and the labor and equipment necessary to product a finished product.

At the same time, marketing protocols can make use of cost accounting to project if the product will sell enough units to make production a viable option. Cost accounting is helpful in making a number of business decisions. By weighing the actual costs versus the anticipated benefit, cost accounting can help a company to avoid launching a product with no real market, prevent the purchase of unnecessary goods and services, or alter the current operational model in a manner that will decrease efficiency.

Whether utilized to evaluate the status of a department within the company or as a tool to project the feasibility of opening new locations or closing older ones, cost accounting can provide important data that may impact the final decision Strategic decisions are among the most important ones an organization makes because they determine the organization's future activities and performance. Strategic decisions include finding opportunities and responding to threats to competitive advantages as well as selecting the organization's destination and the best route to that destination.

To be more specific, cost accounting can help management achieve the following: (a) Controlling inventory cost, minimizing inventory investment, and determining the cost of each product or service, (b) Establishing cost tracking methods that allow control of operations, cost savings, and improvements in quality, (c) Formulating and implementing plans and budgets that motivate employees toward the achievement of company goals, (d) Making prudent decisions that impact both short-term and long-term revenues and expenses, and (e) Pricing products and services in ways that are congruent with organizational goals.

Ethics is extremely important in cost accounting information because it is used for future decision making. Thus, biased or inaccurate costing information can result in faulty decisions, thereby resulting in erosion of wealth for the stakeholders and shareholders of the organization. Also, manipulated costing related information prepared for the benefit of few individuals or prepared under the influence of certain individuals in the organization can also mislead the decision makers.

Thus, it is imperative that costing information should be free from bias or influence and should be extremely accurate. Especially in post Enron Era, increased legislations and compliance from regulatory agencies, such as the Sarbanes Oxley act, as well as heightened pressure from the shareholders and public has led the companies to observe strict ethical standards in terms of their cost accounting practices, primarily to maintain good corporate image as well as avoid increased scrutiny.

Companies are themselves maintaining strong corporate governance to avoid any pitfalls in this regard. The absorption costing is an inventory valuation and costing model that includes all manufacturing costs, such as Direct Materials, Direct Labor, both variable and fixed manufacturing overhead in the cost of unit of a product whereas under variable costing, only the variable manufacturing costs are included in the cost of unit of a product.

If beginning and ending inventory levels are equal, absorption costing profit will be equal to variable costing profit. If the inventory levels are run down over the period, variable costing profit will be higher than the absorption costing profit whereas if inventory levels are increased over the period, absorption costing profit will be higher than the variable costing profit.

Problems with absorption include potential manipulations, such as increasing production regardless of sales levels.