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Third Edition

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Preface to the Third Edition

It is my esteemed pleasure to place the third edition of the book *Cost Accounting* among the students and other readers. The earlier edition of the book has been highly appreciated by the students and the academic community. This fact has further inspired me to make the revised edition a highly valuable and student-friendly text.

The third edition of *Cost Accounting* is an attempt to present discussions on different aspects of cost accounting in a more logical, clear and comprehensive manner. Many portions in the book have been thoroughly revised and rearranged to make them lucid and understandable to the students and other users. Some new concepts such as Cost Management, Just-in-Time Inventory Control, Activity-based Costing have been added in this new edition.

The two chapters, 'Management Information and Reporting System' and 'Mechanised Accounting', which were in the earlier edition, have now been deleted from the third edition.

All the chapters have now more solved and unsolved numerical exercises and problems. The third edition contains latest examination questions and problems from different examinations such as B.Com. (Hons) of University of Delhi, C.A. (Inter) and I.C.W.A. (Inter).

This edition fits adequately well with the course contents of B.Com. (Hons) of University of Delhi, C.A. (Inter), I.C.W.A. (Inter). It is my strong conviction that this edition would prove highly relevant and very useful text to the students pursuing these courses. The book would prove equally useful to the graduate and postgraduate students of commerce and management in Indian universities and professional institutes.

I would welcome and appreciate constructive suggestions and opinions from the readers to improve the content and quality of the book.

JAWAHAR LAL

Preface to the First Edition

This book has been written to serve as a text and provides a vigorous and interesting coverage of the topics in a simple manner. It is designed to help students understand the role of cost accounting, a subject of considerable interest and utility, in accomplishing three broad objectives: (i) cost ascertainment; (ii) cost analysis and cost control; and (iii) managerial decision-making. To achieve these objectives, the contents of the text have been divided into five parts. Part I explains the objectives and role of cost accounting, and basic cost concepts. Part II emphasises the basic elements of cost and Part III discusses cost accumulation and costing making. Part IV is devoted to a discussion on the foundations of managerial planning, control and decision-making. Part V discusses some independent topics which are important in cost accounting.

Part I consists of two chapters which covers the basic concepts and techniques in depth, before a student is exposed to the more vital areas of cost accounting.

Chapter 1 deals with cost accounting, financial accounting, objectives of cost accounting and the cost accounting department.

Chapter 2 provides a survey of basic cost concepts, such as fixed cost, variable cost, semi-variable cost, direct cost, indirect cost, product cost, period cost, opportunity cost, sunk cost, differential cost, joint cost, common cost, and other cost concepts.

Part II is devoted to the basic elements of cost.

Chapters 3, 4, 5, 6 and 7 discuss in detail, each of the components making up the cost of goods manufactured—materials, labour, overhead costs, and expenses.

Part III explains the approaches to product cost accounting, i.e. the basic cost methods. It also stresses methods of accounting systems—integrated and non-integrated.

Chapters 8, 9, 10, 11 describe in great detail cost accumulation methods, such as single costing, job costing, process costing, and operating costing respectively.

Chapters 12, 13, 14 and 15 are devoted to cost control accounts, reconciliation of cost and financial accounts, integrated accounts, and uniform costing and inter-firm comparison.

Part IV consists of four chapters whose principal emphasis is on the internal uses of cost accounting data for managerial planning, control and decision-making.

Chapter 16, 17, 18 and 19 cover and make an in-depth study of budgeting, standard costing and variance analyses, variable costing, and decision-making problems.

Part V comprises four independent chapters which cover a few but important areas in cost accounting.

Chapters 20, 21, 22 and 23 explain responsibility accounting and cost control, marketing cost analyses and decisions, mechanised accounting, cost audit and costing requirements.

I strongly believe that cost accounting books available at present in India and used by the students, both university and professional, have not responded adequately and satisfactorily to their changing requirements and objectives. Most such books lack relevant, up-to-date and adequate material, logical

presentation, practical problems, and satisfactory explanation of basic cost accounting concepts, cost analysis, and managerial uses of cost accounting data.

The present book not only avoids the limitation of these presently available books, but also has several features to help students adequately in their academic and professional courses. Basically, it aims at achieving the following important objectives:

- Detailed coverage of all topics and related subject matter in cost accounting.
- Adequate flexibility to fulfil the needs of different university and professional courses in cost accounting which vary in terms of coverage and emphasis.
- Simple, clear and logical presentation, and an integrated approach to the study of cost accounting, making the subject appear as one comprehensive unit.
- A wide range of illustrations beginning with simple ones and subsequently presenting complex problems. This will help create confidence among students and encourage them to accept challenges later.
- A wide range of thought-provoking questions and problems varying in content, length and difficulty. Most problems are new and have been taken from university and professional examinations, such as B Com (Hons), B Com, M Com, CA, ICWA, ICMA and CIMA (UK), CMA and CPA (USA).
- Coordination between the questions and problems at the end of each chapter and the discussions and explanations presented in the body of the chapter. This facilitates the learning process among students and increases understanding of the subject.

The present book will be very useful for the following courses:

- B Com (Hons), B Com and M Com examinations
- The Institute of Chartered Accountants of India examinations (Intermediate)
- The Institute of Cost and Works Accountants of India examinations (Intermediate)
- Company Secretaries examination
- Master of Business Administration (MBA) examination
- The Institute of Chartered Financial Analysts of India
- Other professional examinations

I am grateful to numerous persons and friends who have given valuable suggestions in the course of writing this text. The materials found in an existing source and used in the book have been duly acknowledged. I appreciate the permissions given by various publishers to use the published materials in this text.

To my wife Pratibha, and our children Sanjay, Seema and Rajnish, I acknowledge a special debt. Their constant support, encouragement and patience have greatly eased my burden and made this project possible.

I sincerely welcome criticisms, views and suggestions from readers for improvement of this text.