

An overview of modern Techniques of costing

Arunesh Kumar Gupta
Asst Prof. Dept of Commerce,
Vivekanand Mahavidyalaya Raipur C.G. India.

Abstract

Accounting is generally classified in three main branches financial accounting, management Accounting and cost Accounting. financial accounting is a process of recording, classifying, summarizing, analyzing and communicating of financial business transactions while management accounting can be defined as a process of providing financial and non-financial information to managers to make managerial decisions and cost accounting is a form of accounting that determines total cost of organization's product by involving variable cost of each step of product as well as fixed cost. There are two way of costing one is called traditional techniques and another one is called modern technique of costing. In this paper we will know about modern techniques of costing which are frequently used within last decades. Motive of this paper is to understand modern techniques of costing. paper covers an overview of kaizen costing, target costing, Activity based costing and life cycle costing.

Key words – Costing, Kaizen costing, Target costing, Activity Based Costing, Life cycle costing.

Introduction

Cost is the amount incurred for Production and distribution of product it does not include interest tax and dividend. While cost Accounting is a process to recording of cost related information. Cost comprises three components material, labor and expenses. And costing can be defined as the method or technique with the help of which cost can be ascertained. There are different techniques of costing Some are traditional techniques includes unit costing Historical costing, operating costing, contract costing, process costing, Job costing, Absorption costing and standard costing. While modern techniques of costing include kaizen costing, Target costing, Activity Based costing and life cycle costing

Objective of this paper

- To Know about modern techniques of costing
- To understand How these techniques provide benefits to organization

Research Methodology –

This research paper is based on secondary data. which are collected from websites.

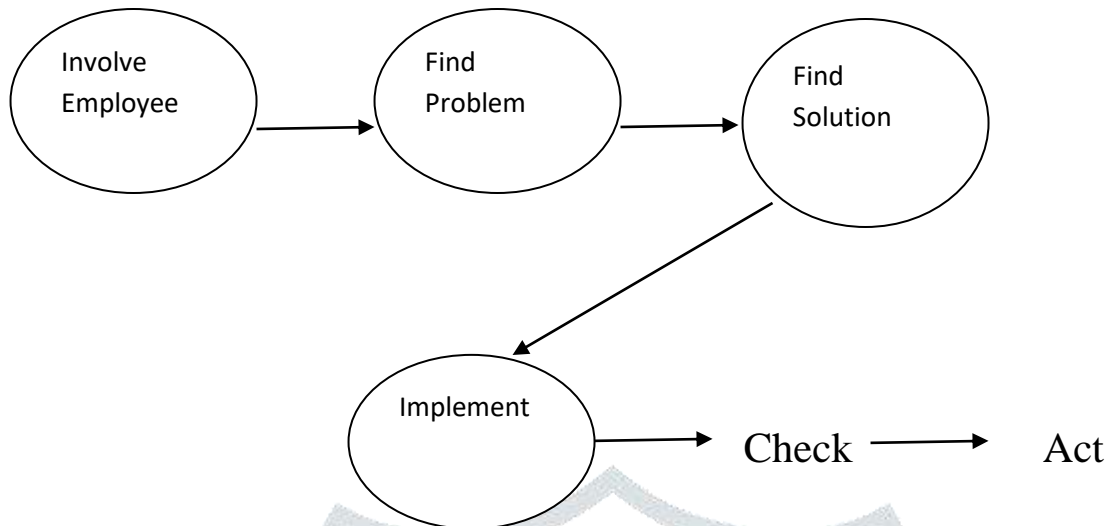
1.Kaizen Costing

Concept of Kaizen costing invented in japan. Japanese word kaizen comprises of two words kai and zen where kai means change and zen stands for improvement that is kaizen means small continuous changes for Improvement. Improvement can be in the form of elimination of waste, elimination non value adding stops, changes in design, reduction of resources. Kaizen result in small savings which are worth in long term. Improvement in product in unit is not possible without five “S” of Kaizen technique first is “sort” defines that unnecessary item should be moved out from organization or sold out as scarp second “S” is “shine” which refers to maintaining cleanliness in manufacturing unit. Third one is “standardizing” which of item in day to day business operation. fouth “S” is ‘Straighten’ this simplifies theo peration and improves accessibility. Last “S” is ‘Sustain’ final step to communicate the changes to employees.

Type of Kaizen costing

- Assets specific – All Activities of improvement which help to reduce the cost of use of assets is called specific Kaizen costing.
- Product specific – Activities of improvement that reduce the cost of product is product specific kaizen

Steps of Kaizen Costing



Advantages of kaizen costing

Kaizen costing is focused on customer satisfaction in this system every employee involved in finding the problem and solution which helps to create team work kaizen costing system helps to create healthy environment in organization. By using kaizen costing technique manufacture can reduce waste. The Japanese automotive company Toyota is the first company who implemented kaizen costing. some of the companies like ford motor company, reliance industries, ABB limited, bhara heavy electrical ltd. Asian Paints, Godrej Consumer Products Ltd Indain Oil Corporation are getting benefits of Kaizen Costing.

2.Target costing

Target costing is a management technique wherein prices are determined by market conditions Target costing is based on the concept that of three C which affects the demand and supply of a product these three c's are customer, competition and cost

“CIMA defines Target cost as a product cost estimate derived from a competitive market price.”

Target costing concept is inverted by japan but developed

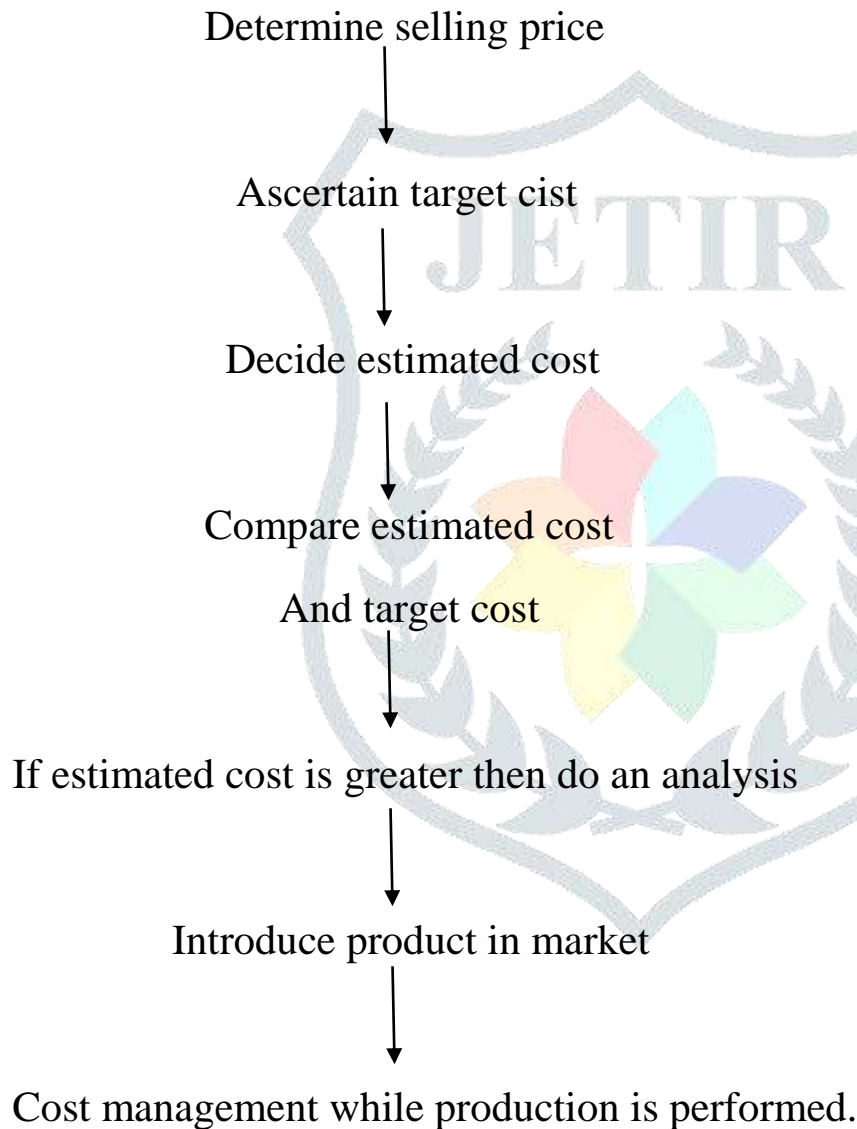
Independently in both USA and Japan. Target costing adopted earlier by American companies to reduce cost and improve productivity. In traditional method of costing we calculate sale price by adding profit in total cost but as per target costing

system we can say that first of all we sold determine selling price which is fixed according to market factors.

We can understand target costing by this equation-

$$\text{Target Cost} = \text{Selling price} - \text{Profit Margin}$$

Steps of target costing



Advantages of target costing

Target cost helps to get desired profit by reducing cost of production it gives more importance to customers view, market condition and profitability Target costing improves participation of employee in organization. It minimize the period of the development cycle of a product. This technique also helps to find new opportunities to management and to build team work between workers. Some big companies like sony, Nissan, toyota are using target costing for their products.

3. activity based costing (ABC)

activity based costing is also one of modern techniques of charging fixed overhead to product. It is a technique of accounting where fixed overhead is charged to product on the basis of quantum of activity consumed by product If a product consumes lower quantum of activity lower burden of fixed overhead is charged however if a product consumer higher quantum of activity higher burden of fixed overhead is charged .ABC system is totally based on activity.

Steps of ABC

- Identifying resource cost and activity
- Assigning resource cost to activity
- Assigning cost to cost object

Advantages of ABC

ABC makes better profitability measures it provides more accurate and informative product cost with the help of ABC on organization make better decision ABC also motivate managers in appraisal of efficiency By using ABC an organization can eliminate use of non-productive resources. Few Indian companies that benefited from ABC are castor India, TCS, Bharat Earth movers , Bharat forge etc. Many more companies from aviation Transport and banking sector have implemented ABC

4. Life cycle costing

Life cycle costing is an alternative approach to take decision regarding introducing a product

Take decisions by comparing total revenue during the entire life of the product with product life cost.

Life cycle costing considering all cost from idea of inception of product range it is also known as tetrotechnology. it covers all cost weather of capital nature or revenue nature. It consider upstream cost like market survey, R&D Cost, Design Cost etc and down stream like after sale services, decommissioning cost etc.

Product have four phases in life introduction, Growth maturity and decline.

Introduction phase includes production cost, R&D Cost. advertisement cost.

In growth Phase there is huge requirement of marketing cost like advertisement, distribution, selling overhead, packing etc. in maturity level sale increases but in decreasing rate so organization make strateties to stand in front of their competitors in this phase occure many expenses related to strategy making last phase is decline in which sale start decreasing decline phase includes repairing cost, replacement cost etc. adding cost of all phases make life cycle cost of product

Life cycle cost = Capital + Lifetime operation cost+ Life time maintenance cost + disposal cost – residual cost

Advantages of life cycle cost

Applicatin of life cycle costing technique allows the full cost associated with procurement to be estimated more accurately. It provides management with an improved awareness of the factors that derive cost and the resources required by purchase. It not only focus on cost but also consider other factors like quality of goods and services

Conclusion

Above study shows different modern different modern techniques of costing and their advantages different industries follows different methods for ascertaining cost of their products The method to be adopted by organization will depend on the nature of the product of organization . Above method are modern technique of costing. By using these techniques an organization can optimize their product cost easily and increase their profitability.

References

www.edupristine.com

www.playaccounting.com

www.accountingtools.com

www.cgma.org

