

COST MANAGEMENT: PROJECTIONS OF COSTING IN GARMENT INDUSTRY.

*Dr.N.Sivakumar, Assistant Professor.
Department of Commerce
NIFT-TEA College of Knitwear Fashion,
Tirupur-641 606*

*Dr.K.Karuppusamy, Assistant Professor.
Department of Commerce
NIFT-TEA College of Knitwear Fashion,
Tirupur-641 606*

ABSTRACT:

Cost management plays a vital role in the garment industry. It is applied in each and every order from buyers, at the time of preparing in the costing by the company. Hence it will be used the working in every stages based on the cost statement. The cost statement includes; the elements of cost in material, labor, and overheads. The costing preparation of the company is initialized in the purpose of reducing the cost, estimating the cost planning, and earning more profit. Minimization of cost and maximization of profit is the main objective of applied costing.

Keywords: *Cost Statement, Material, Labour, Overheads, Garment cost, Target cost, Profit.*

INTRODUCTION:

In the initial stages cost accounting was merely considered to be a technique for ascertainment of cost of products or services on the basis of historical data. In course of time due to competitive nature of the market, it was realized that ascertainment of cost is not as important as controlling costs. Hence, cost accounting started to be considered more as a technique for cost control as compared to cost ascertainment. Due to technological development in all fields, now cost reduction has also come within the ambit of cost accounting. Cost accounting is thus concerned with recording, classifying and summarizing costs for determination of costs of products or services, planning, controlling and reducing such costs and furnishing of information to management for decision making.

COST:

As per Chartered Institute of Management Accountants (CIMA) London, cost means —the amount of expenditure (actual or notional) incurred on, or attributable to, a given thing, but the interpretation of the term depends on a number of factors like nature of business or industry. Moreover, it is difficult to determine an exact cost or a true cost because no figure of cost is true under all circumstances and for all purposes.

COSTING:

According to Wheldon, costing is, —the classifying, recording and appropriate allocation of expenditure for the determination of the costs of products or services; the relation of these costs to sales values; and the ascertainment of profitability. In general, it is understood as process for determining cost.

COST ACCOUNTING:

Cost Accounting is usually considered as the next step to costing. It involves meticulously accurate analyzing, standardizing, forecasting and comparing relevant costing data so as to interpret and report various concern areas to management. Its scope includes preparation of budgets, determination of standard costs based on technical estimates, identifying variances and reasons thereof, etc.

COST ACCOUNTANCY:

Cost Accountancy envisages application of costing and cost accounting in a business setup. It includes determination of selling price and profitability in addition to forecasting of expenses and future probable incomes. It facilitates management with cost control initiatives, ascertainment of profitability and informed decision making. Besides, costing and cost accounting, the following areas are also covered under cost accountancy: -

Cost Reduction is aimed at achieving real and permanent reduction in the unit cost of goods produced or services rendered without compromising the quality or suitability –

Cost Control refers to search for better and more economical ways of completing the current operations. It simply identifies and prevents waste within the existing environment. –

Cost Audit includes the verification of cost accounts and a check on their adherence to the cost accounting principles, plans, procedures and objectives.

GARMENT COSTING:

Garment costing is one of the most important and complex task. There are many factors which are involved in pricing of single piece of clothing. Garment costing includes all the activities like purchase of raw materials and accessories, knitting fabrics, processing and finishing of fabrics, sewing and packing of garments, transport and conveyance, shipping, over heads, banking charges and commissions, etc. The **merchandiser** and the top management of a company are actively involved in deciding the cost of a garment.

ELEMENTS OF COST:

The broad elements of cost are categorized as Material, Labour and Expenses, which are further classified as direct and indirect. The indirect material, labour and expenses together are termed as overheads. A brief explanation of the elements has been given below:

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1. Material: The basic substance used for producing the product is referred to as material. Material can be direct or indirect in nature.

Direct Material: The materials which directly contribute to the production of the product and are easily identifiable in the finished product are called direct materials. Cloth in shirt, paper in books, and wood in furniture are examples of direct materials.

Indirect Material: Other material which is ancillary in the production of any finished product and cannot be conveniently assigned to specific physical units is called indirect material. For example, printing in stationery, scissors used in cutting cloth for shirt, nails in shoes or furniture.

2. Labour: refers to the human effort needed for conversion of materials into finished goods. Labour can be direct or indirect.

Direct Labour: Labour which takes an active and direct part in the production of a particular commodity and can be directly co-related to any specific activity of production is termed as direct labour. Process labour, productive labour, operating labour, manufacturing labour, direct wages etc are used synonymously with direct labour.

Indirect Labour: Employees who do not directly take part in the manufacturing process and whose cost cannot be identified with the individual cost centre are included under indirect labour. Such labour does not alter the construction, composition or condition of the product. Salary of foreman, salesmen and director are some examples of indirect labour.

3. Expenses: Costs incurred in the production process but not included under material or labour are generally expenses. They can be direct or indirect.

Direct Expenses: These are expenses which can be directly, conveniently and wholly allocated to specific cost centers or cost units. Direct expenses are sometimes also described as chargeable expenses.¶

Indirect Expenses: All expenses other than direct expenses are indirect in nature

COST MANAGEMENT:

Cost management is the process by which companies control and plan the costs of doing business. Individual projects should have customized cost management plans, and companies as a whole also integrate cost management into their overall business model. There is no single accepted definition for this term, because it has such broad applications and possible strategies. When properly implemented, cost management will translate into reduced costs of production for products and services, as well as increased value being delivered to the customer.

For a company's management taking this approach to cost management will help a company determine whether they accurately estimated expenses at first, and will help them more closely predict expenses in the future. Any overspending can also be monitored in this way, and either eliminated in future projects or specifically approved if the expense was necessary. Cost management cannot be used in isolation; projects must be organized and tailored with this strategy in mind.

Starting a project with cost management in mind will help to avoid certain pitfalls that may be present otherwise. If the objectives of the project are not clearly defined at first, or are changed during the course of the project, cost over-runs will be more likely. If costs are not fully researched before the project, they may be underestimated, thereby inflating the expectation of the project's success unrealistically. Construction projects are subject to their own particular challenges; these can include constraints in the form of laws and regulations that must be planned around.

If the project is completely and clearly defined, this will facilitate effective management of the costs it will incur. Effective cost management strategies will help a team deliver a finished project within the allocated budget, while also making it as valuable as possible to the company. There is always the possibility of unexpected costs, but preparation in the form of cost management will likely make them much easier to deal with when they occur.

It to be effective overall, cost management must be an integral feature of it. It is easiest to understand this concept if it is explained in the context of a single project. For instance, before a project is started, the anticipated costs should be identified and measured. These expenses should then be approved before any purchasing occurs. During the process of completing a project, all incurred costs should be noted and kept in a record of some kind, to help ensure that the costs are controlled and kept in line with initial expectations, to the extent that this is possible.

There are different analyses of Cost Management: (Green Environment Electronic Knetwork)

1. **Cost Management Software** on wise GEEK
2. **Business Cost Management** on wise GEEK
3. **Cost Management Strategy** on wise GEEK

Cost Management Software on wise GEEK:

- Projects with multiple sources of funding or several categories of expenses may require more complex project cost management software than simpler activities. Some of the options available in certain types of project cost management software are very necessary to its function, while other components may simply be nice bonus features.
- If, on the other hand, you have to present this information to clients, then you should look for a software program that can produce these reports in a client-friendly presentation format. Cost management software ranges from options that encompass the basic features to programs with a variety of bonus features and add-ons.

Business Cost Management on wise GEEK:

- Cost management software helps companies and business owners track and manage costs. This type of software is especially helpful for companies that are managing multiple projects.
- Creating and following an effective cost management plan is important for just about any business. While the specifics of the plan will vary based on the size and type of business involved, there are a few basic approaches that will be part of any type of viable cost management initiative.

Cost Management Strategy on wise GEEK:

- For instance, a director of a newly incorporated company might be solely responsible for devising the IT cost management strategy. A mature and large company, however, might have an entire accounting department that concentrates solely on IT cost management.
- If the project is completely and clearly defined, this will facilitate effective management of the costs it will incur. Effective cost management strategies will help a team deliver a finished project within the allocated budget, while also making it as valuable as possible to the company.

Advantages of Cost Management:

“We feel Beacon plus are on our side. It’s clearly because their offering is all about cost management and they are independent. They understand the minefield that the whole sector has become and take away the hassle factor. The original work on garaging costs worked extremely well for us”

- 1.If you don’t save money, we guarantee not to charge you – you have nothing to lose
2. You have the most up to date information to support your decisions
3. We save you money by negotiating extremely competitive contracts
4. We save you money by ensuring you don’t miss any important deadlines
5. We increase your profit through innovative savings opportunities
6. We recover overcharges that you don’t know you have paid
7. We reduce the hassle in your daily workload
8. We invest in management software so you don’t have to
9. We implement changes for you from start to finish, so you start saving ASAP
10. We provide you with a single point of contact, so you don’t waste your time
11. It’s easy to do business with us, and that makes your life easier
12. We provide the expertise so that you don’t have to recruit, train & retain personnel
13. We are always available when you need us

COST MANAGEMENT PROCESS**What is Cost Management Process?**

A Cost Management process helps you control expenses within an organization. By purchasing the Project Cost Management process advertised here, you can ensure that all expenses are approved before they are paid. Using this project Cost Management process, you can ensure that your project is delivered within budget.

The calculation of manufacturing overhead is the second step of the cost management process. Manufacturing overhead represents all indirect costs that may affect the production of a good. Additionally, failure to order the proper materials on time may mean that the company will pay rush charges for faster delivery. A cost management process should identify potential problems in advance so they can be avoided and should remind project participants of deadlines that, if missed, can create additional costs.

When do I use a Cost Management Process?

If you want to control the way that expenses are incurred, then you need to implement a Cost Management process. It will help you to control project expenses, ensuring that only expenses which have been approved, may take place. Using this Cost Management process, you can also keep your project plan up-to-date with the latest expense information available.

Project Cost Management

Process helps you to monitor and report all expenses within a project.

Costs (or "expenses") are recorded by team members, using Expense Forms. These forms are reviewed and approved by the Project Manager, prior to the expense items being purchased.

The project cost management *process* steps you through this process, to ensure that all of the costs within your project are accurately recorded and tracked.

This project **cost management** process will help you to:

- Identify each of the costs within your project
- Ensure that expenses are approved before purchasing
- Keep a central record of all costs incurred
- Control the overall cost of your project

This template will also enable you to:

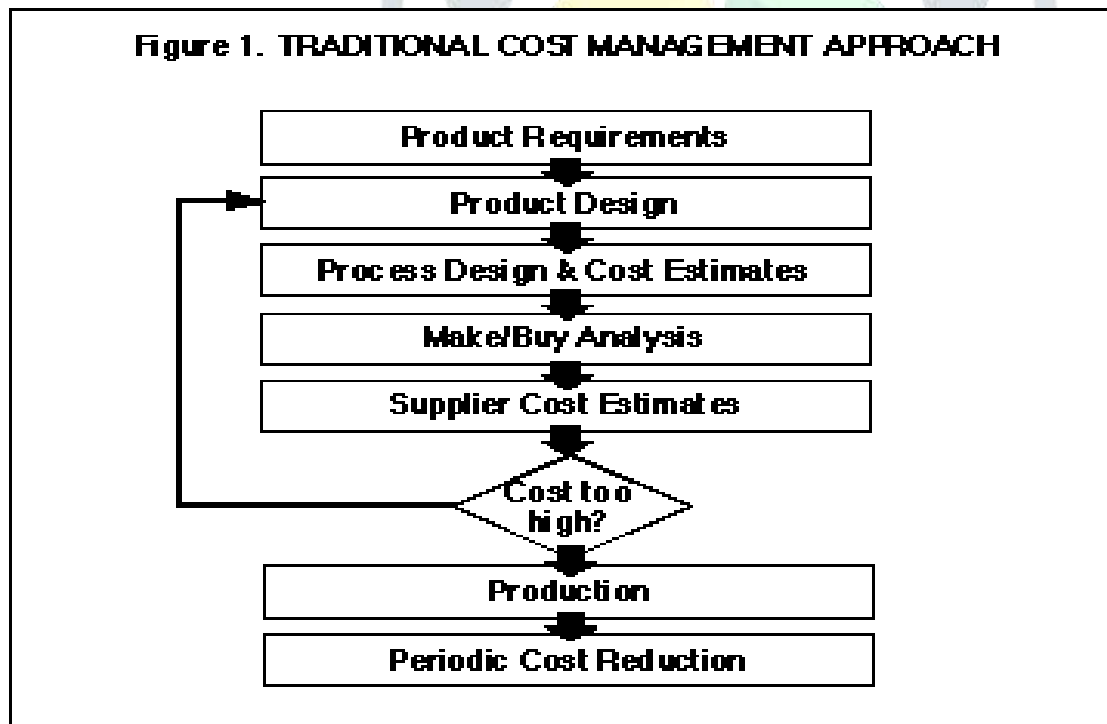
- Determine whether your expenses were adequately budgeted
- Monitor and control instances of over-spending
- Gain special approvals for extra-ordinary expenses
- Schedule expense payments and invoice approvals
- Keep your project and financial plans up-to-date

To deliver your project under budget, it is essential that you implement a project cost management process. This process will help you identify, monitor and control costs, at each phase in the project.

TARGET COSTING

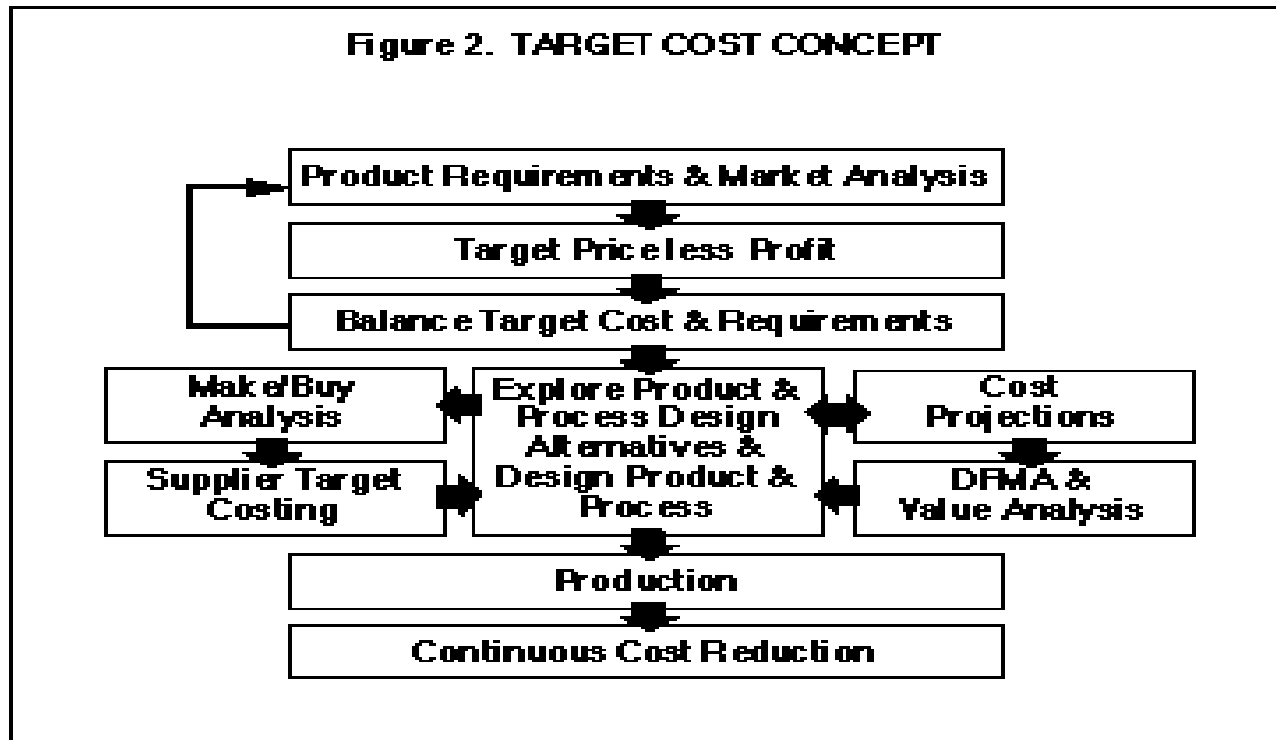
As a totally new product and its industry develop, it starts to compete based on its new technology, concept, and/or service. Competitors emerge and the basis for competition evolves to other areas such as cycle time, quality, or reliability. As an industry becomes mature, the basis of competition typically moves to price. Profit margins shrink. Companies begin focusing on cost reduction. However, the cost structure for existing products is largely locked in and cost reduction activities have limited impact. As companies begin to realize that the majority of a product's costs are committed based on decisions made during the development of a product, the focus shifts to actions that can be taken during the product development phase.

Until recently, engineers have focused on satisfying a customer's requirements. Most development personnel have viewed a product's cost as a dependent variable that is the result of the decisions made about a product's functions, features and performance capabilities. Because a product's costs are often not assessed until later in the development cycle, it is common for product costs to be higher than desired. This process is represented in Figure 1.



Target costing represents a fundamentally different approach. It is based on three premises: 1.) Orienting products to customer affordability or market-driven pricing,

- 2.) Treating product cost as an independent variable during the definition of a product's requirements, and
- 3.) Proactively working to achieve target cost during product and process development. This target costing approach is represented in Figure 2



Target costing builds upon a design-to-cost (DTC) approach with the focus on market-driven target prices as a basis for establishing target costs. The target costing concept is similar to the cost as an independent variable (CAIV) approach used by the U.S. Department of Defense and to the price-to-win philosophy used by a number of companies pursuing contracts involving development under contract.

Different Approaches of Target Costing:

The following ten steps are required to install a comprehensive target costing approach within an organization.

1. Re-orient culture and attitudes.
2. Establish a market-driven target price.
3. Determine the target cost.

TARGET COST CALCULATION WORKSHEET

Sign	Price/Cost Element	Estimate	% Factor	Per Unit Factor	Amount
	Manufacturer's Suggested Retail Price				\$ 495.00
-	Standard Dealer Margin		30%	\$ -	\$ (148.50)
=	Cost to Retailer				\$ 346.50
-	Shipping/Distribution Cost to Retailer		0%	\$ 15.00	\$ (15.00)
=	Selling Price to Retailer				\$ 331.50
-	Distribution Cost/Mark-up		15%	\$ -	\$ (49.73)
-	Shipping/Logistics Cost to Distribution Center		0%	\$ 17.00	\$ (17.00)
=	Manufacturer's Selling Price				\$ 264.78
-	Profit Margin		8%	\$ -	\$ (21.18)
-	Warranty Cost		2%	\$ -	\$ (5.30)
-	Corporate Allocations		10%	\$ -	\$ (26.48)
-	Business Unit Selling, General & Administrative		12%	\$ -	\$ (31.77)
	Non-Recurring Development Cost	1200000			
	Estimated Production Volume	200000			
-	Allocated Non-Recurring Development Cost			\$ 6.00	\$ (6.00)
=	Business Unit Target Cost				\$ 174.05
-	Overhead		45%	\$ -	\$ (78.32)
=	Direct Target Cost (Labor & Material				\$ 95.73

4. Balance target cost with requirements.
5. Establish a target costing process and a team-based organization.
6. Brainstorm and analyze alternatives.
7. Establish product cost models to support decision-making.
8. Use tools to reduce costs.
9. Reduce indirect cost application.
10. Measure results and maintain management focus.

CONCLUSION:

Cost preparation of the company is useful to the management process. The management firstly may be considered in the costing that earn more profit, goodwill, financial transaction for payment and receipt and company overall performance. So, each and every garment company followed by the cost in at any cost not growth in the company.

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