Objectives and scopes of cost accounting

Give an overview of the scopes and the main targets of cost accounting.

Why cost accounting?

The main reason in comparison to financial accounting is NOT to reduce tax but to get a true picture of the company's status in order to improve it, or use this information for planning future strategies.

In other words: Cost accounting is only for internal use!

Figures of the financial accounting process have therefore converted for cost accounting:

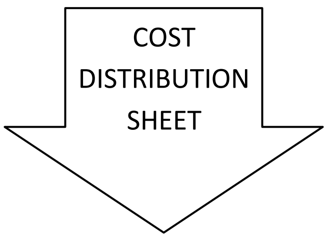
➔ **Expenses** shown in the P&L account must be converted to **costs.**

This has to be done by using the cost distribution sheet.

Example:

Depreciation(financial accounting): 1200/4 = 300 € **EXPENSES**

Expenses



COSTS

Depreciation(cost accounting): 1200/6 = 200 € **COSTS**

This is done because it is clear to the company, that the machine bought will be about 6 years working, and not only 4 as the government says. Because we want to get a very true image of the company's status, we calculate for cost accounting with 6 years useful life!

Two different types of cost accounting:

➔ Full Cost accounting (Overhead costs are broken down by their source and allocated to the individual cost centres using predefined distribution keys(e.g. based on sales revenues, units sales, number of employees etc)

➔ Direct cost accounting (is restricted to direct costs of each cost centre. Overhead costs are not distributed across the cost centres)

Dis-/advantages:

Full cost accounting:

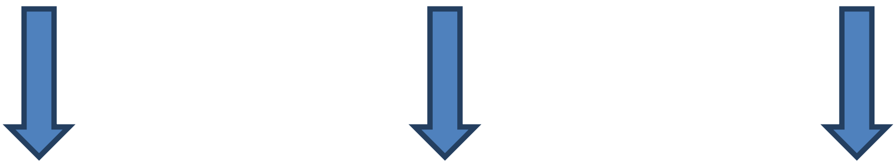
- Helps to increase cost awareness, also overhead costs
- More complex and difficult
- Requires distribution keys, which could lead into disagreements

Direct cost accounting:

- Is simple to understand
- There is no cost awareness for overhead costs

Principle question of cost accounting:

WHICH costs are incurred WHERE for WHAT?



Cost element accounting	Cost centre accounting	Cost unit accounting
Shows which types of costs arise in the company	Shows where these costs incur	Shows for what these costs are incurred
e.g. Cost of material, personnel, depreciation	e.g. production, sales, administration	e.g. products or services

Cost of sales:

What are the costs of producing and/or selling a product/service?

Consists of all costs occurring while producing. Examples:

- Costs of material
- Depreciation
- Personnel costs

- Rent for premises
- Etc…

Variable costs:

These costs change immediately if the amount of products produced changes.

Don't arise if nothing is produced!

Fixed Costs:

Stay always the same, also if the company runs on full capacity or doesn't actually produce at the moment.

The positive aspect: Since these costs always stay the same, **fix cost degression** could be the case → same costs are distributed over a larger number of units produced. That means that the profit increases if the selling price also stays the same!

One of the most important issues is the utilisation of (free) capacities, because it should be one of the main targets of a company to utilise all capacity, since the fixed costs stay always the same and would sink for one item, the more are sold.

$$\boldsymbol{capacity\ utilisation = \frac{current\ capacity\ utilisation}{potential\ capacity}}$$

So the main objective of cost accounting is to allocate where which costs for what arise, and decrease them as much as possible.

Cost unit accounting

Explain which figures significantly influence the price of a cost unit.

In cost accounting, unit of product or service for which cost is computed. Cost units are selected to allow for comparison between actual cost and standard cost, or between different actual costs.

Following questions must be asked to get a clear overview:

Which costs are definitely and directly allocable to a cost unit?	
Direct costs	Indirect costs
Costs definitely and directly allocable to a cost unit	Costs that cannot be definitely and directly allocated, but have to be distributed
*Examples:*Cost of material, personnel cost	*Examples:*Rent, cost of management

What type of costs occurs and changes immediately if the number of items produced changes? What type of cost stay always the same within a certain time period?	
Variable Cost	Fixes Cost
Are only incurred if production takes place and changes depending on capacity utilisation	Stay always same, do not change within given capacity limits
*Examples:*materials,, operating supplies	*Examples:*rent, permanent personnel

---

Example:

	Costs	Direct Costs	Overhead Costs	Fixed Costs	Variable Costs
Material	400	x			x
Personnel	230		x	x	
Rent	66		x	x	
Depreciation	5	x		x	
Leasing rate - car	10		x	x	
Leasing rate - machine	5	x		x	
	716 €	410 €	306 €	316 €	400 €

Cost centre accounting

Explain the purpose of cost centre accounting, the advantages and disadvantages of full and direct cost accounting and the difference to profit centre accounting.

Cost centre accounting is used to make employees more aware of costs occurring in the company.

To make it work, cost centres are established. This makes it possible to work with the cost-by-cause-principle. Then, all costs are distributed to their cost centre (where they occur), to get a better cost awareness!

Examples: Customer service, Sales, Human resources, logistics and so on.

In the process of setting up this system, a cost-centre-manager must be appointed for each centre, to ensure the reaching of the negotiated goal.

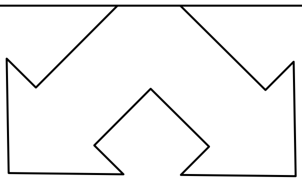
The basis of the cost-centre-accounting is always the P&L-Account. In this, the costs of each centre have to be considered and in the next step taken into the cost distribution sheet.

In the next step, called target/actual comparison, the cost distribution sheet and the limits standing on it are checked.

Example:

Cost distribution sheet:

Costs are splitted up to the cost centre where they arised



Cost elements	Total	Cost centre *Human Ressources*	Cost centre *Logistics*	Overheads
Personnel costs	195.000			
Office materials	3.000			
Depreciation	20.000	10.000	2.000	8.000
Rent	4.000			
Energy consumption	14.000			
Maintenance	6.000			
Total	242.000			

The sums are taken over from the P&L account. The more information is possible, the more detailed a Cost distribution sheet could be!

With the help of this cost distribution sheet costs can determined and controlled!