

A Study on Costing Technique and its Effectiveness

V. Sharron Jasmine

Student, Department of Commerce, Mount Carmel College, Bangalore, India

Abstract: Cost is the most influential factor in the outcome of a product or service within many of today's industries. It is impossible to sustain the competitive advantages without having an accurate system of cost mechanism. Better efficiency and maximum profit can be earned, if there is a proper costing technique for accurate costing. To evaluate the performance of the companies, managers rely on the consistency of costing techniques. This paper presents the importance of costing techniques and its effectiveness on the growth of the business.

Keywords: Costing techniques, efficiency, and growth.

1. Introduction

Due to the pressure of the global competition, the manufacturing and services firms are forced to become integrated, more flexible and highly automated to increase their productivity by lowering their costs to survive on the market. To compete, qualify and to sustain, companies are required to improve their quality, flexibility, product variety and novelty gradually more while consistently maintaining or reducing their costs. This can be achieved by employing the most appropriate costing technique that would help in making informed decisions, cost control and cost management. Costing techniques are methods for ascertaining cost control and decision making purposes, (CIMA, 2009). They can be used to make-or-buy decisions, price appraisal and assessing purchasing performance.

Some of the important costing techniques are as follows:

- **Marginal Costing:** it is a technique in which allocation of expenditure to production is restricted to those expenses which arise as a result of production. E.g.: materials, labour, direct expenses and variable overheads. Fixed overheads are excluded in cases where production varies because it may give misleading results. This technique is useful in manufacturing industries with varying levels of output.
- **Activity Based Costing:** It is a technique that is designed to identify the activities in an organisation and assigns the cost of each activity to all the products and service according to the actual consumption of each. By doing so, the overhead costs can be associated with products, departments, customers etc. This helps to have better control over overhead costs.

- **Direct Costing:** it is a practice where all the direct cost are charges to operations processes or products and all the indirect costs are written off against profits in the period in which they arise. This technique differs from marginal costing as some fixed costs can be regarded as direct costs in appropriate circumstances.
- **Absorption or Full Costing:** it is a technique of charging all the costs to operations, processes or products.
- **Uniform Costing:** It is a technique where standardized principles and methods of costing are employed by a number of different companies and firms. Standardization may extend to the methods of costing, methods of defining costs and charging depreciations, methods of allocating overheads to cost centres. Costing Techniques are useful for setting normal sales prices. It is essential for organizations to keep track of the levels of production costs and profitability to maximize the profits and minimize the wasted cash flow. They are accounting techniques that helps to understand the value of inputs and outputs in a production process. The right costing technique in manufacturing helps to make informed decisions about production levels, pricing, competitive strategy and future investment. It is a framework for effective monitoring of these parameters.

2. Literature review

- Quang (2006) in his study shows that besides the methods of costing, there are many costing techniques which are used by management only for controlling costs and making some important managerial decisions. They are not independent methods of cost finding such as job or process costing but are basically costing techniques which can be used as an advantage with any of the methods.
- Barbole and Yuvraj (2013) in their study of "Impact of cost control and cost reduction techniques on manufacturing sector", have talked, that the customers are continuously demanding high quality and better performance products and at the same time, they want the prices to fall therefore it is necessary for companies

how to manage its product or service cost, quality and performance.

- Vangundy, Sharon E. (1973) in his study of “Cost accounting standards and the management accountant” has explained that the method selected for costing within a specific company should be the one lost likely to provide the most usable information.

3. Statement of the problem

It is easier for the businesses to manage and utilize the resources well, if they can track them and study their impacts. This is possible through the implementation of costing techniques Most of the organizations have adopted different costing techniques as it promotes profitability and business growth. But its effectiveness also lies in the performance and reliability of the business firm. This paper thus examines the effectiveness of the use of costing techniques within an organization.

A. Scope of the study

This study is carried out to understand and to know about the various costing techniques adopted by a company, its importance and its impact on the profitability of the company.

B. Objectives of the study

- To study the importance of different costing techniques on cost control and cost management.
- To know the impact of costing techniques on the effectiveness of the organization.

C. Methodology

- The data is collected through the primary source, which include questionnaires and personal interviews.
- Secondary data has been collected from internet web page, books and journals.

D. Sampling design

Simple Random sampling and consecutive sampling which is a purposive sampling are used for sampling design.

E. Sampling size

The sample size of the study is 60.

F. Limitations of the study

- The respondents are limited with respect to the topic.
- The study was limited due to lack of current data.

4. Data analysis

Interpretation

Fig. 1, shows that 50 per cent of the respondents agree that costing technique is helpful for cost control and cost management, 10 per cent of the respondents are of the opinion that costing techniques sometimes is helpful for cost control and cost management.

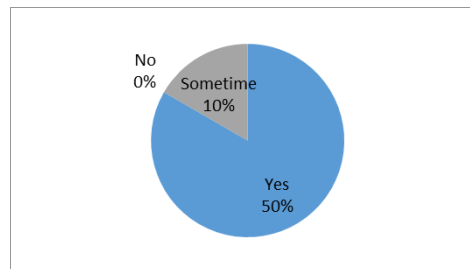


Fig. 1. Is Costing technique helpful for cost control and cost management?

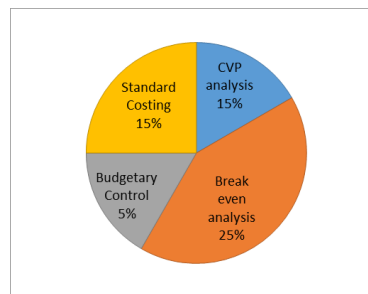


Fig. 2. The techniques used for cost and profit decision making

Interpretation

Fig. 2, shows that 25 per cent of the respondents use break even analysis for cost and profit decision making, 15 per cent of the respondents use standard costing and an equal per cent of the respondents use CVP analysis , 5 per cent of the respondents use Budgetary control.

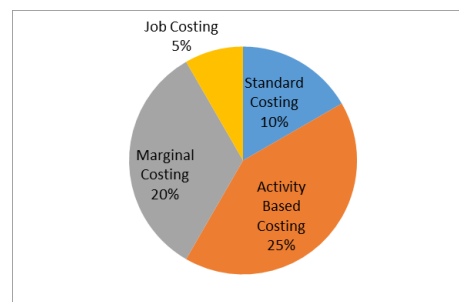


Fig. 3. Effective Costing Technique for cost control and cost management

Interpretation

Fig. 3, shows that 25 per cent of the respondents say that Activity Based Costing is effective costing technique for cost control and cost management, 20 per cent of the respondents say marginal costing, 10 per cent of the respondents say standard costing and 5 per cent say Job costing.

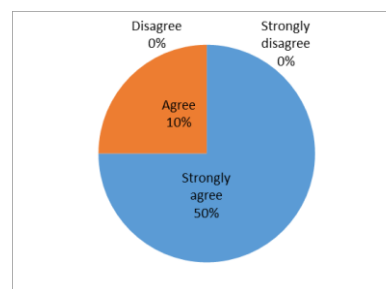


Fig. 4. Costing technique is necessary for the efficiency of the organization

Interpretation

Fig. 4, shows that 50 per cent of the respondents strongly agree that costing technique is necessary for the efficiency of the organization and 10 per cent of the respondents agree that technique is necessary for the efficiency of the organization.

A. Findings

- Majority of the respondents (50%) feel that costing technique is helpful for cost control and cost management.
- Majority of the respondents (25%) prefer break even analysis for cost and profit decision making.
- Majority of the respondents (25%) say that Activity Based Costing is effective costing technique for cost control and cost management.
- Majority of the respondents (50%) strongly agree that costing technique is necessary for the efficiency of the organization.
- Majority of the respondents feel that profitability of the organisation is influenced by costing techniques.

B. Suggestions

From the above findings of the study, it can be observed that for the efficiency of the organization it is necessary to employ

costing techniques, as it is helpful in the controlling cost and increases the profit through better pricing strategy. Since traditional costing techniques no more satisfy the demand of the organizations' product pricing management, they have resorted to Activity based costing as it used not only to gain control over the overhead costs but also to gain an understanding of which products use more activities than the others.

5. Conclusion

As cost is considered as the basic factor, it can be managed efficiently through the implementation of appropriate costing techniques. Costing techniques provide accurate and reliable cost information for pricing decisions of the product and also enhances the efficiency of the organization through better pricing strategies.

References

- [1] www.shodhganga
- [2] inlibnet.ac.in
- [3] www.revista.cafrr.ro
- [4] <https://yourbusiness.azcentral.com/importance-costing-managerial-decision-making-17281.html>