

Cost Accounting Techniques in Manufacturing Sector & its challenges

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Abstract

This article examines the Cost Accounting Techniques (CAT) practiced in manufacturing entities by using traditional and modern cost accounting methods. The objective is to analyse the elements of cost involved in the production process and methods adopted by the manufacturing entities, to capture the cost. Activity based costing (ABC), standard costing, budgetary control, Job costing and process costing are the commonly used methods in the manufacturing entities. Most of the manufacturing entities face challenges under ERP system to allocate the costs based on their complexity of their production process, and how they use the cost drivers and cost centers effectively. In contrast, as per the postulations of many academic authors, the traditional costing techniques have lost their relevance. However, this study reveals that traditional costing techniques are still in use, compared to modern costing techniques. Effective cost accounting techniques & effectiveness of successful implementation of ERP system will enable the manufacturing sector to control costs and take the appropriate decision on their pricing and stay current in the competitive market. The usage of these techniques also depends on the size of the organization, its culture, and the complexity of the products they manufacture.

Keywords Elements of cost, Cost of production, activity-based costing, cost drivers, ERP system, backflush costing