Cost Accounting

The objectives of cost accounting are :

(a) To aid management in their pricing policies.

(b) To control costs and operating efficiencies.

(c) To provide adequate data for future planning and,

(d) Inventory valuation.

In order to achieve these objectives, the cost accounting records are maintained in such a manner the cost accountant presents this information to various levels of management to help them in their day-to-day decision making process. The traditional role of costing in textile industry has been to find the total cost on historcial basis to meet the objectives of pricing policy and valuation. However, this does not serve the various diversified purposes of the textile management. More and more importance is placed to standard costing and techniques like marginal costs, which help the scientific pricing policies and the right product mix and also planning and controlling the operation. The total cost of any product consists of the following components such as: raw material, direct material, direct labour and overheads.

Processing :

In case of wet processing, the raw material is grey fabric. Direct materials are the dyes, chemicals and the folding and packing materials which can be directly identified with the final product. The cost is directly in proportion to the quantity produced. The costs of direct labour and overheads are called conversion costs. The variable overheads are power, steam, water, consumable stores, breakages etc. The fixed overheads can be classified as :

(1) The cost of owning the machines, such as depreciation, insurance, property taxes, etc.

(2) The space cost such as depreciation and insurance on building, rent rates and taxes, etc.

(3) The cost of running the machine such as indirect wages, salaries, etc.

(4) The cost of maintaining the machine in its working conditions.

(5) The cost of various service departments such as time keeping, stores department, factory administration, etc.

The overhead expenses tend to remain relatively constant despite changes in the levels of production. However, there are certain expenses which contain an element of both fixed and variable and so termed as semi-variable or semifixed overhead, e.g. stores, supervisory and other staff salaries. The next step in the cost process is to arrive at the cost per machine shift of cost centre by dividing the total cost of each cost centre. If we know the production per machine shift in terms of kg. or meter of each sort it can be arrived at. For arriving at the total cost of a sort, we should have the complete process flow chart so that the total cost can be calculated. To arrive at the correct cost of product per process we must have a good system of maintaining proper production records and machine activity data. Cost in various departments like bleaching, mercerising, dyeing, printing, packing and folding are as under:

Bleaching department

In this department the cost can be worked out on the basis of paise/metre or paise/kg. of fabric bleached. It is worked out seprately for different types of machines e.g. J-box, Kiers open width bleaching. The cost can be divided into conversion costs and direct material (chemical) costs. The conversion costs per machine shift is being worked out on the basis of actual expenses and the number of machine shifts worked on the basis of actual kgs. of every fabric bleached and the cost per kg.

The costing may be done for various varieties depending upon the following parameters (1) Batch size (2) Rate of production (3) Chemical recipes. Based on these parameters the following groups may be arranged. (i) Cotton and synthetic blends;

(ii) Fabrics for full bleach; (iii) Fabric for dyeing; (iv) Coloured woven fabric.

Mercerising department

The cost is basically the cost of caustic soda (NaOH), apart from the wetting and neutralising agent. The cost depends on: (i) Caustic soda carried by the fabric at impregnation stage; (ii) More the recovery of caustic soda, lesser will be the cost; (iii) Cost of recovery (which largly depends upon the cost of steam and the efficiency of the plant).

Dyeing department

Costs are calculated firstly on the basis of the class of dyes and the percentage of shade dyed light, medium or d rk. For the purpose of cost control each recipe cost should be worked out shade-wise whereas group cost should be used for the purpose of pricing.

Finishing department

Cost may be reported as per the type of finish imparted into the fabric.

Printing department

The cost is worked out separately for roller, screen, rotary or table printing and for the class of dyes used. It also depends upon style of printing and the area covered by prints.

The conversion cost per machine e.g. resist discharge or direct shift can be easily worked out. The production norms can be worked out on the basis of average length and number of machines per design, set up time of the design, matching change time and running speed of the machine for various designs. The direct materials cost depend on colour strength of each dye in the package; chemical cost of various types of dyes; colours per design; colours used; coverage of the printing; penetration of the colour and width of the fabric.

By fixing the norms too, each variable, we can work out the recipes for various groups of designs for different fabrics and work out a representative cost to serve the purpose of pricing. An absolutely correct method of costing would be to record the time of machine hours worked for each design and the dyes and chemicals actually consumed for the same. For soaping, ageing, folding

and baling, the cost accounting procedure is same as in bleaching department.

Need for standards costing

In this, the costs are worked on the basis of actual expenses and the actual production for the period. The standard costing is a method of ascertaining the costs where by statistics are prepared to show the standard cost, the actual cost and the difference between these costs, which is termed as the variance. The variances worked out are for material price, material usage, labour usage, overheads budget or rate activity and efficiency.

To implement the standard costing system, we have to set standard areas in case of each and every cost centre whether production or service. They are: (a) Activity of capacity; (b) Performance standards; (c) Expenses standards.

Standard costing reveals :

1. The actual performance is readily comparable with the pre-determined standards showing separately favourable or adverse variance.

2. The variance can be analysed in detail making the management to investigate efficiency rate of labour, materials, and operation of machines.

3. The principle of 'Management by Exception can be applied without spending time or searching through unnecessary information but can concentrate attention on important factors.

4. Gains or losses due to market fluctuations in prices of raw materials as distinct from variation due to manufacturing conversion are revealed.

5. The effects of costs of variation in the price and use of materials, the ratio of labour wages, the volume of production and altered expenses are demonstated at short intervals.

Cost of damage and reprocessing :

The damage percentage of an average is about 7 per cent of the loss of value of sales realisation. Similary 2 per cent to 3 per cent of the dyes and chemical cost is wasted due to reprocessing of the fabric. Proper recording system is necessary to work out the costs of damage. It should be remembered that a unit having sale turnover of Rs. 5 crores and 7 per cent damage can increase its profit by Rs. 10.75 lakhs, if the damage is reduced by 2 cent.

Marginal cost technique :

In this technique, only such costs are considered which change in the alternative courses of action. Marginal costs vary with production. Hence the technical personnel should be as much cost conscious, as the financial personnel.

Cost reduction :

In case of cost control, the actual cost is compared with the pre-determined standard cost and efforts are made to analyse the variance and corrective steps taken, whereas in the cost reduction programme, the very basis of the standards are adopted to see whether the standards could not be improved upon.

Cost reduction is enabled by (a) Substitution of dyes and chemicals (b) Substitution of processes (c) Reduction of process (d) Reduction of process time and so the cost reduction can be achieved by improving machine utilisation, increasing production efficiencies, and minimising expenditure, reduction of production processes, economic use of dyes, chemicals and packing material. Thus, the objective of a textile mill can be achieved by increasing he quantum of profits, not by increasing selling prices, but by educing costs.

REFERENCES

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