

Using Cost Accounting to Measure Profit Margins in Personal Service Businesses



Cost Accounting is the process of collecting, analyzing, recording and summarizing data to be used in evaluating various courses of action. It is an excellent tool to be used by personal service businesses to measure their profit margins.

Cost Accounting Systems Allow a Business Owner to Maximize Operating Efficiencies

Cost accounting systems involve the recording and matching of all the costs and revenues in a business process in order to measure its profitability. The system must provide the detailed cost information management needs to control operations and plan for the future in different work environments.

The most effective cost accounting systems are the type that track the costs of producing a service, predict cost behaviors and set prices.

Calculating the Full Cost of Producing a Service

A good method to compute the cost of each unique service rendered is called Activity Based Costing (ABC). This approach is based on analyzing the costs of materials and labor as well as allocating overhead based on the specific activities performed to produce a specific service.

Predicting Cost Behaviors

Management must have reliable knowledge about how costs will “behave” at different levels of operations. If production increases, will costs go up, down or remain the same? Once the behavior of costs is known, the ability to make accurate cost predictions is significantly improved.

Setting Prices

Prices are set in competitive markets by the laws of supply and demand. If a company generates a service that is unique, designed to meet specific customer requirements or is protected by intellectual property laws like a copyright or patent, the business can charge substantially more for this type of service.

Which System is Best for Your Business?

Pacific Crest Group (PCG) answers this question in the posting “[Accounting Challenge for a Local Professional Services Company](#).” PCG designed and implemented a new time and expense tracking system to account for the costs of projects in process and thereby measure the resulting profit. It also created a uniquely integrated invoicing system to simplify billing. The system allowed senior management to focus on sales, client service and expanding the business rather than being consumed in the details of managing the production of a specific service.

Pacific Crest Group provides professional services that keep your business focused on your critical objectives. We provide strategic Accounting and Human Resource (HR) services created specifically to help you meet your goals. Through exemplary customer service, clearly defined policies and procedures as well as a forward looking perspective, we provide the outsourced solutions your business needs to grow. A PCG professional is happy to meet with you to discuss solutions for your unique requirements designed to maximize all of your business opportunities.