

Using Cost Accounting to Make Sound Business Decisions



Cost Accounting is a great tool to be used for both product and service type businesses. It is the process of collecting, analyzing and summarizing data to be used in evaluating various alternative courses of action.

The system involves the recording of all the costs incurred in a business in a way that can be used to improve profitability. Its goal is to advise management on the most appropriate path to maximize efficiencies. The system must provide the detailed cost information that management needs to control operations and plan for the future in a given environment.

According to the [Financial Accounting Standards Board](#), cost accounting systems are not subject to Generally Accepted Accounting Principles (GAAP) when they are used internally by businesses and are not required to be used in the preparation of Financial Statements for the public. As a result, there is a wide variety in the cost accounting systems used in different companies and sometimes even in various departments of the same organization.

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

Calculating the Costs of Producing a Product or Service

A good method to compute the cost of each unique item produced or service rendered is called

Activity Based Costing (ABC). This approach is based on analyzing the costs of materials and labor as well as estimating factory overhead based on the specific activities performed to produce the goods or services rendered.

Predicting Cost Behaviors

Management must have a good idea 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 cost predictions is significantly improved.

Setting Prices

Prices are generally set in competitive markets by the laws of supply and demand. However, if a company produces a product or 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 product or service.

Which system is best for your business? Pacific Crest Group (PCG) answers this question in the posting [“Accounting Challenge for Local Professional Services Company.”](#) PCG designed and implemented a new time and expense tracking system to measure profit and track the costs of projects in process. 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 those services.

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 that 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.