

P.G. SEM - IV
EC- 2 (ADVANCED COST ACCOUNTING)
TOPIC- TECHNIQUES OF COSTING

Techniques of Costing

Costing techniques refer to the different methods and approaches used to determine, analyze, and control the cost of production or services in an organization. These techniques help management in planning, decision-making, cost control, and performance evaluation. Each technique is applied according to the nature of business, production process, and managerial requirements. The major techniques of costing are explained below.

1. Absorption Costing

Absorption costing is a traditional costing technique in which all manufacturing costs—both fixed and variable—are included in the cost of a product. It absorbs total production costs into units produced. This technique is widely used for financial reporting and profit measurement because it provides a complete cost of production.

2. Marginal Costing

Marginal costing considers only variable costs as product costs, while fixed costs are treated as period costs and charged against total revenue. It helps management analyze the impact of changes in production volume on profit. This technique is useful for short-term decision-making such as pricing, make-or-buy decisions, and profit planning.

3. Standard Costing

Standard costing involves fixing predetermined or standard costs for materials, labour, and overheads and comparing them with actual costs. The difference between standard and actual cost is known as variance. This technique helps in cost control, efficiency measurement, and performance evaluation by identifying deviations and taking corrective actions.

4. Budgetary Control

Budgetary control is a technique in which budgets are prepared for different business activities and actual performance is compared with budgeted figures. It helps management plan future operations, control

expenses, and coordinate departmental activities. Budgetary control promotes financial discipline and improves operational efficiency.

5. Uniform Costing

Uniform costing refers to the adoption of the same costing principles and methods by several firms within the same industry. It allows comparison of performance among companies and promotes standardization and efficiency. Trade associations often encourage uniform costing systems.

6. Activity-Based Costing (ABC)

Activity-Based Costing allocates overhead costs based on activities that generate costs rather than using traditional allocation methods. Costs are assigned to products according to resource consumption. ABC provides more accurate cost information and is useful in complex production environments.

7. Direct Costing

Direct costing includes only direct costs such as direct materials, direct labour, and direct expenses in product cost. Indirect costs are treated separately. This technique helps management focus on controllable costs and improves decision-making.

In conclusion, costing techniques are essential tools of advanced cost accounting that help organizations measure and control costs effectively. Techniques such as absorption costing, marginal costing, standard costing, budgetary control, uniform costing, activity-based costing, and direct costing provide valuable information for planning, pricing, and managerial decisions. Proper use of these techniques enhances efficiency, profitability, and overall financial performance of a business organization.