

E2-E3

MANAGEMENT

COST MANAGEMENT

WELCOME

- This is a presentation for the E2-E3 Management Module for the Topic: Cost Management.
- Eligibility: Those who have got the Upgradation to from E2 to E3.
- This presentation is last updated on 15-3-2011.
- You can also visit the Digital library of BSNL to see this topic.

Agenda

- Definitions
- Classification of Cost
- Reporting formats
- Costing in BSNL

Different Methods of Accounting

- Financial Accounting
- Cost Accounting
- Management Accounting

Cost

- Cost is a measurement, in monetary terms, of the amount of resources used for the purpose of production of goods or rendering services.
- The type of cost is often referred in the costing system depends on the purpose for which cost is incurred.

Cost, Expense and Loss

Based on economic benefit following terms emerges:

- Deferred Cost
- Expired Cost
- Expense
- Loss

Cost Centre

- Any unit of Cost Accounting selected with a view to accumulating all cost under that unit.
- The unit may be a product, a service, division, department, section, a group of plant & machinery, a group of employees or a combination of several units.

Cost Unit

- It is a unit of quantity of product, service or time in relation to which costs may be ascertained or expressed.
- Cost Unit is a form of measurement of volume of production or service.
- This unit is generally adopted on the basis of convenience and practice in the industry concerned.

Cost Accounting

- It is the process of accounting for costs.
- It embraces the accounting procedures relating to recording of all income and expenditure and the preparation of periodical statements and reports with the object of ascertaining and controlling costs.
- It is thus the formal mechanism by means of which costs of products or services are ascertained, controlled and managed.

Cost Audit

- It is the verification of cost accounts and a check on the adherence to the cost accounting plan.

Difference between cost accounting and financial accounting

- Objectives
- Mode of presentation
- Recording
- Analyzing Profits
- Periodicity of reporting
- Degree of accuracy

Cost Allocation

- Allocation is the process of charging the full amount of cost to a particular cost center.
- This is possible when the nature of expense is such that it can be easily identified with a particular cost center.

Cost Apportionment

- It is the process of splitting up an item of cost and charging it to the cost centers on an equitable basis.
- This is done in case of those items which cannot be wholly allocated to a particular cost center.

Cost Control

- It is exercised by a variety of techniques like standard costing, budgetary control and quality control etc.
- Other controls are – Ratios and key performance indicators like :
 - a. Gross profit ratio
 - b. Operating expenses to sales ratio
 - c. Return on capital employed ratio
 - d. Profit per employee
 - e. Liquidity Ratio
- Trend Analysis

Other Cost Control Technique

- a. Ratio and key performance indicators like Gross Profit Ratio, Operating expenses to Sales Ratio, Return on Capital Employed Ratio, Profit per employee, Liquidity Ratio.
- b. Trend Analysis.

Cost Management

- Cost Management is the process whereby companies use cost accounting to report or control the various costs of doing business.
- Cost management has a broad focus. It includes – but is not confined to – the continuous control of costs.
- Cost management is not practiced in isolation. It is an integral part of general management strategies and their implementation.

Cost Absorption

- The term absorption refers to charging of overheads of a cost center to different cost units in such a way that each cost unit bears an appropriate portion of its share of overheads.
- This is done by means of overhead rates. Different overhead rates are used for absorption of different categories of overheads.

Management Accounting

“An integral part of management concerned with identifying, presenting and interpreting information used for: formulating strategy; planning and controlling activities; decision taking; optimizing the use of resources; disclosure to shareholders and others external to the entity; disclosure to employees; and safeguarding assets.”

Costing in BSNL

- Cost Audit Report Rules 2001.
- Cost Accounting Records (Telecommunication) Rules 2002.
- Circular No. 20 regarding Revised Accounting Procedure & Accounts Codes w.e.f. 01.04.2003.
- Circular No.23 regarding maintenance of costing records as per Cost Accounting Records (Telecommunication) Rules, 2002.

Objective of Costing System

- To maintain Cost Accounting Records according to Cost Accounting Records (Telecommunication) Rules, 2002
- To Compile Cost Centre wise cost information
- To allocate /apportion the cost of Service Cost Centres to Operation Cost Centres or Service-products.
- To determine the cost of different service-products.

Objective of Costing System

- To identify profitable/ non-profitable operation centres
- To generate data to facilitate fixing tariff
- To provide essential cost information for strategic decision making
- To provide base for Cost Reduction Programme

Objective of Costing System

- To generate cost information for reports for submission to Regulatory Authority or other bodies
- To prepare statements of Cost & Revenue for Rural Operation Centres for claim of subsidy / grants from Government.

Cost centres in BSNL

- **Operation Cost Centre** : Functional area engaged in Telecom Operation. (SSA), Metro districts, Units of regional maintenance circles, Data network.
- **Service Cost Centre** : Functional areas engaged in support service to Operation. Corporate office, Maintenance Circles, Factories, Material Management and Stores, CPAO(ITI), National centre of electronic switching, Training Centres, Technical Development circle, Quality Assurance Circle, Project, I.T.Centre, Civil division, Electrical division etc.,

Service Products

Different services offered by BSNL : -

- Basic telephony.
- National long distance service.
- International long distance service.
- Cellular mobile.
- Telex.
- Telegraph.
- WLL.

Service Products

- Leased circuits.
- Internet services.
- PSPDN.
- VSAT.
- Value Added Services.

Maintenance of following information required

1. Assets – Service-product wise
2. Costs - Cost centre / service- product wise
3. Revenue – Service product wise
4. Activity – Operation and Service product wise
5. Statistical / Technical records
6. Captive Consumption
7. Reconciliation of Cost and Financial Accounts
8. Adjustment of Cost Variances when Standard Costing is used
9. Records on Related Party transactions

Proformas required

- Proforma A : Asset Register(All components)
- Proforma B : Cost information on Operation Cost
- Proforma C - Part I : Statistical (Quantitative) Information
- Proforma C- Part II : Cost Information on Service Cost
- Proforma D: Apportionment of Cost to Service-Products; Revenue Information Service product wise; Margin etc

Proforma A

- Built-up from existing Asset Register maintained for financial Accounting at all Cost centres for following components.
- Land, Building, Apparatus & Plants, Motor vehicles and launches, Cables, Lines and wires, Installation and Test equipment, Office machinery and equipment, Electrical fittings and appliances, Furniture's and fixtures, Computer, Mast and Aerials, Satellite Earth station etc.

Proforma B

- Is to be maintained for compiling the operation cost of various “Service Products” for all Operational Cost Centres.

Proforma C Part 1

- Quantitative information maintained by SSA, Metro districts, Units of Maintenance Region & Data Network.
- This part is meant for recording technical data prepared and maintained by Planning/ Development Section.
- At the end of financial year units will submit this part of Proforma C to their respective Circle HQ for consolidation.

Proforma C Part II

- Maintained by Service cost centre and Operation Cost centre.

Proforma D

- Is for allocation and apportionment of operational cost, service cost and other costs to service products.
- Revenue also will be posted service-product wise.

Classification of Cost

- By Nature of Expense
- By Relation to Cost Centre
 - a. direct cost
 - b. indirect cost
- By Functions / Activities
- By Behavior
- For Management Decision Making
- Classification by time

By Nature Of Expenses

- Material cost : Material of any nature used for production or for providing service.
- Labour Cost : Payment made to employees for their service.
- Other expenses involved in activity.

By Relation To Centre

- Direct cost – expenditure can be directly allocated to cost centre or cost object.
- Indirect cost – expenditure can not be directly allocated to cost centre or cost object. Indirect cost is also known as overhead.

By Functions / Activities

- Production cost.
- Administration cost.
- Research and Development cost.
- Selling cost.
- Distribution cost.

By Behavior

- Fixed cost : does not vary.
- Variable cost : vary with volume of activity.
- Semi-variable cost : partly affected by volume of activity.

Management Decision Making

- Marginal cost.
- Opportunity cost.
- Shut Down cost.
- Avoidable cost.
- Unavoidable cost.

Classification by time

- Historical cost : Actual cost of acquiring Assets.
- Standard cost : Predetermined norm applied for assessing the cost.

