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COST MANAGEMENT SYSTEM IN CEMENT INDUSTRY: AN OVERVIEW

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ABSTRACT

Cost analysis is process of evaluation of an undertaking. It serves as an important tool for efficient decision making and control. The term of cost analysis came into existence due to need and urgency of the business managers to investigate into the in he rent causes of frequent variations in cost and profit. The actual earning of a concern may differ from the expected or budgeted earning on account of variation in demand, selling price, production, cost productivity, severely of competition and government legislations etc. Cost analysis examines the relationship of cost and profit to the volume of business to maximize profit. There may be a change in the level of production due to many reasons, such as competition, introduction of a new product, trade depression or boom increased demand for the product, scarce resources, changes in selling prices of products etc. Cost analysis as a technique is used to determine whether a particular project is worthwhile, to choose between alternative projects, or as a guide to the timing of Individual projects.

Keywords: *Cost Analysis, Cost Productivity, Selling Price.*

Introduction

Cost analysis examines the behavior of total revenues, total costs, and operating income as changes occur in the units sold, the selling price, the variable cost per unit, or the fixed costs of a product. The review and evaluation of the separate cost elements and profit in an offer's or contractor's proposal (including cost or pricing data or information other than cost or pricing data), and the application of judgment to determine how well the proposed costs represents what the cost of the contract should be assuming reasonable economy and efficiency. Cost analysis is a major tool employed to evaluated projects. It provides the researcher or the planner with a set of values that are useful to determine the feasibility of a project from and economic stand point.

Cost analysis relationship helps the management in discovering the requisite sales strategy to achieve a desired target. The presentation of relevant information before management in the form of accurate and intelligible reports is useful for timely guidance and intelligible reports is useful for timely guidance and prompt decision making for this purpose the accountant shall have to classify all the relevant costs and revenue data. This type of analysis is a subject, which gives a sweeping overview of planning process and provides a clear understanding of behavior of costs and their impact on profits.

Cost Management for Decision-Making

There are certain concepts which are used in the analysis of cost for decision making. These are discussed as under:

- **Marginal Cost:** Marginal cost is the total of variable cost plus variable overheads. It is based on the distinction between fixed and Cost analysis is process of evaluation of the economics of an undertaking variable costs. Fixed costs are ignored and only variable costs are taken into consideration for determining the cost of products and value of work in progress and finished goods. "In economics and finance, marginal cost is the change in total cost that arises when the quantity produced changes by one unit. That is, it is the cost of producing one unit of a good." The marginal cost of an additional unit of output is the cost of the additional inputs needed to produce that output. More formally, the marginal cost is the derivative of total production costs with respect to the level of output.

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- **Out of Pocket Cost:** This is that portion of the costs which involves payment to outsiders, i.e., gives rise to cash expenditure as opposed to such costs as depreciation which do not involve an cash expenditure. Such costs are relevant for price fixation during recession or when make or buy decision is to be made.
- **Differential Cost:** The change in costs due to change in the level of activity or pattern or method of production is known as differential costs. If the change increases the cost, it will be called incremental cost. If there is decrease in cost resulting from decrease in output, the difference is known as decremented cost. Differential cost is the difference between the cost of two alternative decisions, or of a change in output levels.

A differential cost can be a variable cost a fixed cost, or a mix of the two-three is no differentiation between these types of costs, since the emphasis is on the gross difference between the costs of the alternatives or change in output. Since a differential cost is only used for management decision making, there is no accounting entry for it any cost that differs between alternatives in a decision making situation. In managerial accounting, a decision making situation. In managerial accounting this term is synonyonous with avoidable cost and relevant cost.

- **Sunk Cost:** A sunk cost is an irrecoverable cost and is caused by complete abandonment of a plant. It is the written down value of the abandoned plant less its salvage value. Such costs are historical which are incurred in the past and are not relevant for decision making and are not affected by increase decrease in volume. Thus, expenditure which has taken place and is irrecoverable in a situation is treated as sunk cost."In economics and business decision asking, sunk costs are retrospective costs that have been already been incurred and cannot be recovered." Sunk costs are sometimes contrasted with prospective costs, which are future costs that may be incurred or changed if an action is taken. "Post decision dissonance at post time". A cost what has recovered – A sunk cost differs from other future cost that a business may face, such as inventory costs or because it has already Re dispensers, for taking managerial decisions with future implications, a sunk cost is an irrelevant cost. If a decision has to be made for replacing the existing plant, the book value of the plant loss salvage value (if any) will be a sunk cost and will be irrelevant cost for taking decision of the replacement of the existing plant.

The concept is important because sunk costs are irrelevant to financial decisions. Sunk costs are sums that have already been spent and cannot be recovered. Sunk costs are not affected by increase or decrease of volume. Examples of such costs include depreciated fixed assets; development costs already incurred etc. "Sunk costs are unavoidable because they have already been incurred.

- **Opportunity Cost:** It is the maximum possible earning that might have been earned if the productive capacity on services had been put to some alternative us. In simple words, it is the advantage in measureable terms, which has been forgone due to not using the facility in the manner originally planned.

For example, it an owned building is proposed to be used for a project, the likely rent of the building is the opportunity cost which should be taken into consideration while evaluating the profitability of the project. As observed by James M. Buchanan, "Opportunity cost is that coat of any activity measured in terms of the value of the best alternative that is not chosen. It is the sacrifice related to the second best choice available to someone, or groups who has picked among several mutually exclusive choices". The opportunity cost is also the cost to the foregone products after making a choice opportunity cost a key concept in economics, and has been described as impressing "the basic relationship between scarcity and choice".

"The nation of opportunity cost plays a crucial part in ensuring that scare resources and use efficiently "

The cost of an alternative that must be forgone in order to pursue a certain action put another way, the benefits you could have received by taking an alternative action.

Some examples of opportunity are as give below:

- The opportunity cost of funds invested in a business is the interest that could have been earned by investing the funds employed in the business somewhere else as in the bank as a fixed deposit.
- The opportunity cost of using machine to produce a specific product is the earning forgone that would have been possible if the machine was used to produce some other product.

- The opportunity cost of obsolete material lying in the firm and used for a specific job is the amount which can be realized by selling the obsolete material as scrap.

Thus, opportunity cost is the measure of the benefit of opportunity forgone.

Ñ **Imputed or Notional Cost:** Notional costs or imputed costs are those costs which are notional is character and do not involve any cash outlays, e.g., notional rent charged on bushiness premises owned by the proprietor, interest on capital for which no interest has been paid. When alternative capital investment projects are being evaluated it is necessary to consider the imputed interest on capital before a decision is arrived as to which is the most profitable project. As possible by Charted Accountants, London, "Notional cost as the value of a benefit where no actual cost is incurred." Even though such cost do not involve any cash outlay but are taken into consideration while making managerial decision.

Examples of such cost are: Notional rent charged on business premises owned by the proprietor, interest on capital for which no interest has been paid. When alternative capital projects are being evaluated it is necessary to consider the imputed interest on capital before a decision is arrived as to which is the most profitable project. Notional cost of liquid assets or stockholders' capital is the maximum interest that would be earned on them as a fixed deposit or as an investment in a mutual fund. Notional cost must be added to actual cash outlays to establish a true estimate of the cost of production or of running a business also called implicit cost.

Ñ **Replacement Cost:** It is the cost at which there could be purchase of an asset or material identical to that which is being replaced or revalued- It is the cost of replacement at current market price. The term replacement cost or replacement value refers to the amount that an entity would have to pay to replace an asset at the insurance industry " replacement cost" or "replacement cost value" is one of several method of determining the value of an insured item, replacement cost is the actual cost to replace an item or structure at its pre cost condition this may not be the "market value" of the item and it typically distinguished from the "actual cash value" payment which includes a deduction for depreciation.

Ñ **Avoidable Cost and Unavoidable Cost** : Avoidable cost are those cost which can be eliminated if a particular product or department with which they are directly related, is discontinued for example, salary of the clerks employed in a particular department can be eliminated, if the department is discontinued, An expenses that will not be incurred if a particular activity is not performed Avoidable cost refers to variable costs that can be avoided, unlike most fixed costs, which are typically unavoidable, Avoidable costs are expenses that can be avoided if a decision is made to alter the course of a project or business

Unavoidable cost is that cost which will not be eliminated with the discontinuation of a product or department, for example, salary of factory manager or department, for example, salary of factory manager or factory rent cannot be eliminated, even if a product is eliminated, unavoidable cost is that cost which cannot be avoidable at least for the short term which cannot be influenced at the business unit level but is controllable at the corporate level.

Ñ **Relevant Cost and Irrelevant Cost:** A cost that is relevant to a decision is called relevant cost. Past costs are not generally relevant because they are sunk costs or costs already incurred. Thus, the book value of an assets or depreciation charged in accounts in respect of assets is not relevant cost. On the other hand, the fall in the resale value of an assets as a result of using it, as also the running expenses incurred to make use of the assets are relevant costs.

Similarly in the case of materials regularly in use, the relevant cost is its replacement cost and not the book value or the realizable value .For material that is not in regular use; the realizable value is the relevant cost. If it is possible to use this non–moving material in place of another material, the value of the letter for which substitution is made is the relevant cost of the non-moving material.

The relevant cost of any scarce resource is the direct cost of using the resources plus any contribution earned by that resource on the most profitable alternative use of the resource. In this sense that relevant cost is the opportunity cost. Generally relevant costs are the expected future costs relevant to a decision and they differ among different alternatives.

Relevant costs are costs that change with respect to a particular decision sunk costs are never relevant .Future costs may or may not be relevant. If the future costs are going to be incurred regardless of the decision that made, those costs are not relevant committed costs are future costs that are not relevant. Even if the future costs are not committed, if use anticipate incurring those costs are regardless

of the decision that we make, those cost are not relevant. The only costs that are relevant are those differ as between the alternative being considered. "A relevant cost is a cost that differs between alternatives being considered. It is often important for businesses to distinguish between relevant and irrelevant cost when analyzing alternatives because erroneously considering irrelevant costs can lead to unsound business decision."

"Ignoring bocelevantadata is analysis can save time and effort. Non-cash items, such as depreciation and amortization, are frequently categorized as irrelevant costs since they do to impact cash flows.

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