



1718



MAH/MUL/03051/2012
ISSN-2319 9318

International Multilingual Research Journal
Vidyawarta[®]
Special Issue, January 2018

Dnyaneshwar Gramonrati Mandal's
Hon. Balasaheb Jadhav
Arts, Commerce & Science College, Ale
Tal. Junnar, Dist. Pune-412411.

NAAC Re-accredited with "B" Grade
Organized By

Department of Commerce

**National Conference on Recent Trends
in Commerce & Management**

Editor
Dr. Subhash Wadekar
Principal, B.J. College, Ale (Pune)

Sponsored by

Planning & Development,
Board of College & University Development (BCUD)
SAVITRIBAI PHULE PUNE UNIVERSITY, PUNE.

Besides this, the insurance sector should focus more on cyber-insurance in 2017 for protecting individuals and businesses from cyber threats such as theft, phishing, spams, extortion, hacking, data destruction, and much more. Problems such as lack of effective technical solutions, difficulty in inventing solutions to combat network attacks, ignorance of users to utilize benefits of technical solutions, and cyber liability shell games played by vendors should be addressed immediately

References:

1. "Insurers Flying High", Steve Yahn, Risk & Insurance, April 16, 2015, accessed October 2016 at <http://www.riskandinsurance.com/insurers-flying-high/>
2. "Instech Startups Target Small Business Insurance Market", Andrew G. Simpson, Insurance Journal, March 15, 2016, accessed November 2016 at <http://www.insurancejournal.com/news-national/2016/03/15/401799.htm>
3. "Chatbot & The Rise of the Automated Insurance Agent", Rick Huckstep, The Digital Insurer, April 27, 2016, accessed October 2016 at <http://www.the-digital-insurer.com/blog/insurtech-the-rise-of-the-automated-insurance-agent-aka-the-insurtech-chatbot/>
4. "SafeShare Blockchain Based Insurance Solution for Startups", The Digital Insurer, accessed October 2016 at <http://www.the-digital-insurer.com/dia/safeshare-blockchain-based-insurance-solution-startups/> <http://www.gartner.com/newsroom/id/3323017>
5. "Insurance Companies that found a novel way for marketing", bevond, 19 March 2015, accessed October 2016 at <http://bevond.com/blog/5-insurance-companies-that-found-a-novel-way-for-marketing/> <https://www.ibef.org/industry/insurance-sector-india.aspx>
6. Maharashtra Times Dated-10th Nov.2017 <https://www.capgemini.com/insurance>
7. The Indian Express-9th June 2017



16

COST ACCOUNTING METHODS CHALLENGE TO ACCOUNTING PROFESSION

Dr. Vijay Shivaji Mistary

Department of Commerce, M.S.G. College,
Malegaon Camp, Dist. Nashik
Email: mistaryvijay@gmail.com

Introduction:

Cost accounting, as main part of management accounting, is continuously changing. Economic realities have made it necessary for most companies to have organizational changes as well as cost reduction. Markets have become global with competitors offering high-quality, low-cost goods and services. Speed, accuracy as well as understanding and meeting consumers' needs come in front. Cost accounting has to provide relevant cost information for corporate executives to make correct decisions. Traditional cost techniques cannot model the really needed expenditures for producing a product well. Because of this, some techniques were developed, which measure the relation between costs and cost originators in more complex correlations and not just with a simple quantity-cost relations. Beside the traditional techniques (actual costing, standard costing, normal costing, etc.) new methods appear. Among the others, these are: Activity-Based Costing, Target costing, Process Cost System and Marginal Costing. The aim of this paper is to present these cost methods' advantages and disadvantages, in order to find out, how the cost accounting profession can answer to the challenges of new business circumstances. Accounting, as business function, collects, organizes records and

analyzes the data of business transactions of a company in order to present adequate information to internal and external stakeholders. Accounting can be divided into two groups: financial accounting and managerial accounting. Financial accounting has external orientation; its aim is to meet the informational needs of external stakeholders. Financial accounting's subject of observation is company's cash-flow, and transactions' recording refers to the entire company. Near financial accounting, because of different information needs of internal stakeholders (owner, manager, and staff), a managerial accounting is developed which also collects, classifies and summarizes business-financial data as well as prepares and presents reports. Managerial accounting does it only for the managers. Cost accounting, as central and the oldest part of managerial accounting is a set of principles, methods and procedures of defining cost, revenue and result information, and means providing these information for internal stakeholders. Cost accounting has internal orientation, thus it is in tune with management structure's requirements. Cost accounting as a part of accounting has relatively long past. It has existed since the first decade of 1800. During its life continuously has changed, and is changing nowadays also. In the beginning of its development companies had low technological equipment. Bookkeeping was characterized by "pencil-paper" method. This fact defined the costing systems too, which aim was to file the most important cost figures in the easiest way. In this period the management didn't deal with cost allocation, because there was a mass-production with homogenous products. The cost structure was simple, it contains mainly direct material costs and direct labor costs, while manufacturing and non-manufacturing overheads were not present significantly. In these circumstances direct-labor hours were suitable allocation-base for overhead. Thanks

to technological development, companies became open for product diversity, managers spread the company's profile with new product lines, and mass-production was slowly changed by individual products and services. Markets have become global with competitors offering high-quality, low-cost goods and services. If a company wants to remain in the market, or wants to increase its market share, it has to focus on speed, accuracy as well as to satisfy the consumers' needs. This complexity of largely automated equipment, product diversity and requirements of global market caused the rising of overhead costs. In addition, because of automation, there are no longer an obvious correlation between direct labor and overhead costs. This concurrent environment forces the managers to use accurate information in their decision processes. Cost information gets a main role in decision making. The traditional cost accounting systems can not meet the new information requirements, because its rigidity and simplicity. Managers need a "road map" to have successful navigation in a company with product and service diversity. It has to be recognized, that every company is special in some way, that means, every company have a special own map. According to this, a cost accounting system has to be established, that can paint a useful picture about the company's cost structure. This system has to be flexible, to be able to answer the new challenges of the market. Although the former mentioned facts persuade us about the importance of a good costing system, in many company tax and financial accounting are emphasized. Financial accounting is external oriented. External stakeholders care only about the correctness of company's overall cost of goods sold and inventory valuation. Costing systems are turned to managers, who use their data in strategic and operational planning, budgeting, product and process cost control as well as decision making. By Douglas Hicks¹ the reasons of the fact that

most cost systems are based on financial accounting's rules could be as follows:

First of all, still the experienced accountants have financial accounting backgrounds with external reporting orientation. They cannot imagine that financial accounting's cost data can be distorted. The second reason refers to financial problems. External reporting requires the use of financial rules, so a cost system according to these rules must be in use in an organization. For successful decision making an implementation of suitable costing system would be optimal. This means, that there is a need for maintaining two cost systems parallel. Many managers aren't aware of the advantages of the second – alternative – cost system. They look at it as addition cost to the company. Third reason could be technical. Till 1980's, computers did not exist. People got used to computational limits and didn't think about complex recording and computing systems.

Accounting Systems

In professional literature there are some definitions of cost accounting systems. Basically, a cost system is a mechanism for computing unit costs. This mechanism has several components, which depend on its type. We have to look at costing systems as concepts with the aim to "report cost numbers that indicate the manner in which particular cost objects use the resources of an organization" A cost system is just one information source for managers in their everyday decision, but the most important one. Essential purpose of any costing system is to provide cost information with the aim to help managers to plan, control, coordinate, direct and make decisions. Purposes of cost accounting systems are: - to define unit cost of product or service, through assigning material, labor and overhead cost to products.

- to measure inventory and cost of goods sold,
- to provide information for economic decisions (pricing, assortment),

- to control costs and financial result.

The development of cost accounting can be divided into two periods. In the first period the so called, traditional cost systems were developed. The second period started in 1980's, when new costing concepts came to spread in management theory and practice. Traditional cost systems are: actual-, normal- and standard costing. The common characteristic of these systems is that they trace direct costs to cost object and allocate indirect costs based on a single plant wide cost allocation base. The difference between traditional costing methods is that they use different prices (actual or standard) and different indirect rates (actual, budgeted or standard) in their calculations. All these methods can be combined by stock-costing methods. Methods of costing stock are variable costing and absorption costing. Stock-costing methods have impact on balance sheet and income statement because of different treatment of production costs. Using variable costing, all variable manufacturing costs are included as inventory costs, and all fixed manufacturing costs are costs of the period in which they are incurred. At absorption costing, stock "absorbs" all the manufacturing costs.

Current Costing Systems

Nowadays technological achievements, with bar coding and other forms of online information recording, make it possible the materials and time used on jobs are being recorded automatically and complex computer systems can be set up for reachable prices. In addition, the competition in the global market is present with high-quality products combined with low prices. Managers can answer to the market challenges investing into computer system which focuses on costing system, supporting successful decision making. New costing systems try to find the appropriate allocation base for overhead costs defining different cost pools with different allocation bases by recognizing cause-effect correlation

between cost and cost object. New costing systems and concepts are: Target costing, Department costing, Activity-Based costing, Variable costing (direct or marginal costing), and a new concept of management thinking is Balanced score card. Target costing focuses on target cost per unit, which is the estimated unit cost of a product that, when sold at the target price⁷, enables the organization to earn the target profit per unit. Managers have to distinguish cost incurrence from locked-in (designed-in) costs. Cost incurrence means a resource is used up. Locked-in costs are costs that have not yet been incurred but will be incurred in the future on the basis of past decisions. Locked-in costs are those costs that are already defined by designing a product. By new way of thinking we must keep in mind, that not just a direct production cause costs, but the preparation work also, and these preparation jobs order the most of the manufacturing and non-manufacturing costs. Managers also have to distinguish value-added and non value added costs with the aim to be able to offer cheap but quality products and services. In activity-based costing "the objective is to understand overhead and the profitability of products and services"¹⁰. As it can be read at many articles, the activity-based concept is not an option for businesses to succeed in their future, but it is a requirement! That doesn't mean that every organization must implement a complex ABC system. It means that every company has to determine its true economic costs with understanding the costs relation to its products and services, in order to make an appropriate decision. Considering the business practice, the ABC is implemented mainly by big companies. Small businesses think that this concept's implementation would be very expensive for them, without enough benefits. It is incorrect. "Activity-based costing is a beautifully simple concept that can be adopted in a wide variety of ways." We have to be aware, that small

organizations are not just little big companies. They can have the same concepts and theory of management, but the methods used to put those theories into practice are different! With ABC method, companies are making a self-portrait. And a self-portrait can not be made using someone else as a model, because than the picture will be false. The ABC is the concept to adopt, not the system to install.

Traditional costing	Activity-based costing
Only manufacturing costs are assigned to products.	Manufacturing as well as non-manufacturing costs can be assigned to products (some manufacturing costs may be excluded from product costs).
Selling, general and administrative expenses are period expenses.	Selling, general and administrative expenses can be assigned to products if there is a cost effect relation between them.
A single overhead rate is used for the entire factory: direct labor- or machine-hours.	A number of overhead cost pools exist, with different allocation bases.
Costs of unused capacity are assigned to products too.	Costs of idle capacity are not assigned to products (only the costs of capacity they use).

Negotiating about the current costing systems, we have to mention the Balanced Scorecard concept too. This concept was developed by Robert Kaplan and David Norton. Management accounting plays a main role in decision making as well as in the implementation of the company's strategy. The balanced scorecard translates an organization's strategy into a comprehensive set of performance measures. It consists of four key perspectives: financial, customer, internal business process and learning and growth.

CONCLUSION

Cost accounting is changing continuously, trying to be able to answer the managers' every day questions. Global market, international business processes, customers' growing needs for high quality with low price

focus managers' attention to cost management. The accounting profession, analyzing the costs behavior, attempts to improve the traditional costing systems, that is, to answer the new challenges. Idle capacity, cost pools, activity-based concept, sunk cost, value added, non value added costs, target pricing, relevant costs, locked-in costs are just a few examples of new expressions that occur in nowadays cost accounting. Unfortunately some companies have an aversion to new concept's implementation, not recognizing their positive effect on organization's profit. The reasons vary from cultural, through institutional, political, and behavioral to educational reasons.

References:

1. Douglas T. Hicks: Activity-Based Costing
2. The Ernst Young: Guide to Total Cost Management, Co- ISBN: 963-8401-19-2
3. Ray H. Garrison, Eric W. Noreen: Managerial Accounting, 9th ed ISBN: 0-07-239785-3 Nikola Stevanoviæ, Dejan Maliniæ, Vlade Miliæeviæ:
4. <http://blog.accountingcoach.com> (September, 2008.)
5. Principles and Practices, Vikas Publishing House, New Delhi.. S. N Maheshwari,
6. Cost Accounting www.mycwai.com.
7. Advanced Cost Accounting and Cost Systems -: Ravi Kishor, P.V. Ratlam, M.L.Basu

□□□

17

Growth Prospects of Non-Banking Financial Companies in India

Mrs. Bharti Mahesh Arote
Scholar, DCRC Pune University, Pune
Email: bharti.arote@gmail.com

ABSTRACT:

Financial intermediaries like non-banking financial companies (NBFCs) have a definite and very important role in the financial sector, particularly in a prospering economy like India. NBFCs play significant role in promoting inclusive growth in the country, by catering to the diverse financial needs of customers not served by the banks. Added, NBFCs often take lead role in providing advanced financial services to Micro, Small, and Medium Enterprises (MSMEs) most suitable according to their business requirements. The NBFC sector has always played a critical role in encouraging growth of the Indian economy and hence needs to be nurtured appropriately. NBFCn have traditionally complemented the role of banking sector. They have catered the needs of those borrowers who were not considered suitable by the banks. A customer falling in low or middle income group may not be able to pass the credit worthiness test of bank. Those customers can avail financial services provided by the NBFCs. Also banks play their role in semi urban and rural areas only for the purpose of accepting deposits or merely fulfilling the norms of RBI of meeting priority targets. NBFC are filling these unhealthy gaps left by bank in rural and semi urban areas. They have also helped in providing various financial services in developing small and mid business. NBFC play there role of credit sup