

Limitations of Cost Accounting

1. Lack of uniformity:

Cost accounting lacks a uniform procedure. It is possible that two equally competent cost accountants may arrive at different results from the same information. Keeping this limitation in view, all cost accounting results can be as mere estimates.

2. Conceptual diversity:

There are a large number of conventions and flexible factors such as classification of cost into its elements, issue materials on average or standards price, apportionment of overhead expenses, arbitrary allocation of joint costs, division of overhead into fixed and various and variable costs, division of cost into normal and abnormal and controllable and non-controllable and adoption of marginal and standard costs due to which it becomes difficult to have exact costs. In which a contacts, the reliable of cost accounting might be low.

3. Costly:

There are many formalities which are to be observed by a small and medium size concerned due to which the establishment and running costs are so much that it becomes difficult for their concerned to afford us cost. Thus it can be used only by big concerned.

4. Ignorance of futuristic situation:

The contribution of cost accounting for heading futures situation has not been much for example, it is has not evolved so far any tool for heading inflation situation.

5. Lack of double entry systems:

Under cost accounting. A double entry system is not adopted that does not enable to checks the arithmetic's accuracy of the transaction and locate the errors.

6. Developing stage:

Cost accounting is to development stage since its principle concepts and conversions are not fully developed.

Classification of Costs

1] Classification by Nature

This is the analytical classification of costs. Let us divide as per their natures. So basically there are three broad categories as per this classification, namely Labor Cost, Materials Cost and Expenses. These heads make it easier to classify the costs in a cost sheet. They help ascertain the total cost and determine the cost of the work-in-progress.

1. **Material Costs:** Material costs are the costs of any materials we use in the production of goods. We divide these costs further. For example, let's divide material costs into raw material costs, spare parts, costs of packaging material etc.
2. **Labor Costs:** Labor costs consists of the salary and wages paid to permanent and temporary employees in the pursuit of the manufacturing of the goods

3. Expenses: All other expenses associated with making and selling the goods or services.

Classification by Functions

This is the functional classification of costs. So the classification follows the pattern of basic managerial activities of the organization.

The grouping of costs is according to the broad divisions of functions such as production, administration, selling etc.

- Production Costs: All costs concerned with actual manufacturing or construction of the goods
- Commercial Costs: Total costs of the operation of an enterprise other than the manufacturing costs. It includes the admin costs, selling and distribution costs etc.

Classification by Traceability

This aspect one of the most important classification of costs, into direct costs and indirect costs. This classification is based on the degree of traceability to the final product of the firm.

- Direct Costs: So these are the costs which are easily identified with a specific cost unit or cost centers. Some of the most basic examples are the materials used in the manufacturing of a product or the labor involved with the production process.
- Indirect Costs: These costs are incurred for many purposes, i.e. between many cost centers or units. So we cannot easily identify them to one particular cost center. Take for example the rent of the building or the salary of the manager. We will not be able to accurately determine how to ascertain such costs to a particular cost unit.

4] Classification by Normality

This classification determines the costs as normal costs and abnormal costs. The norms of normal costs are the costs that usually occur at a given level of output, under the same set of conditions in which this level of output happens.

- Normal Costs: This is a part of the cost of production and a part of the costing profit and loss. These are the costs that the firm incurs at the normal level of output in standard conditions.
- Abnormal Costs: These costs are not normally incurred at a given level of output in conditions in which normal levels of output occur. These costs are charged to the profit and loss account, they are not a part of the cost of production.