iJRASET
International Journal For Research in Applied Science and Engineering Technology



INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 10 **Issue:** III **Month of publication:** March 2022

DOI: https://doi.org/10.22214/ijraset.2022.40761

www.ijraset.com

Call: 08813907089 | E-mail ID: ijraset@gmail.com

International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538
Volume 10 Issue III Mar 2022- Available at www.ijraset.com

The Proactive Approach for Cost Control in Organizations

Mitali Saxena
Independent Researcher

Abstract: ***To run a company successfully, profit maximization is first and most important objective which can be simply achieved by cost minimization. In order to earn maximum profits, the cost of product should be minimized. We have two approaches with us to estimate and plan the upcoming costs i.e. Standard Costing and Budgetary Control. We calculate variances in standard costing by comparing standard costs with the actuals which makes it a reactive approach. On the other hand we prepare budgets (estimations) which are regularly monitored and compared with the actuals so that corrective action can be taken if required. This again makes the process reactive. In this research paper we will see whether mixing of these two approaches results into a proactive approach which will help companies make a decision before committing a mistake.***
Keywords: Standard costs, Actual costs, Budgeted costs, variances, proactive

I. INTRODUCTION

CIMA defines standard cost as "A standard expressed in money. It is built up from an assessment of the value of cost elements. Its main uses are providing basis for performance measurement, control by exception reporting, valuing stock and establishing selling prices." It is a pre-determined cost based on the previous trends. Budgeted (estimated) cost is an approximate assessment of what the cost will be. It is based on the anticipated future changes.

In standard costing we get variances after calculating the difference between standard cost and actual cost, whereas in budgetary control we calculate the difference between budgeted cost and actual cost to get the final results. Inclusion of actual cost in both the methods makes them a reactive approach. Which means decision is taken after the mistake has taken place. If we eliminate actual costs from both these methods and start calculating the difference between standard cost and budgeted cost, will this result in a proactive approach? If yes, then decisions regarding costs can be taken before committing a mistake.

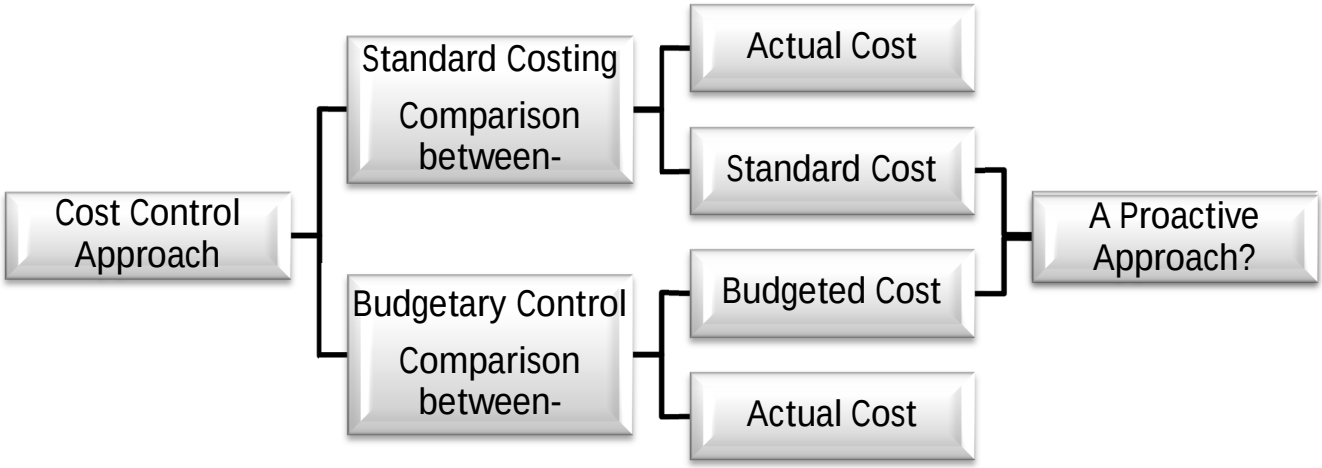


Figure 1- Process of cost comparison for decision making

II. OBJECTIVE AND METHODOLOGY

The main objective of this research is to find out a proactive approach that may help managers in controlling the cost before incurring them. The methodology used is completely experimental.

©IJRASET: All Rights are Reserved

III. RESULTS AND DISCUSSION

Let us discuss with the help of an example, how comparison of standard cost and budgeted cost can help managers in making proactive decisions.

		Fredrick Path labs Ltd.	(Amount in Rs.)
Costs	Standards	Budgets	Difference Favourable (F) Adverse (A)
	10,000 units	10,000 units	
Variable costs			
Raw Materials	50,000	60,000	10,000 (A)
Direct Labour	84,000	76,000	8,000 (F)
Overheads	37,000	37,300	300 (A)
Fixed Costs			
Rent	9,000	9,000	-
Depreciation	6,000	6,000	-
Total	1,86,000	1,88,300	2,300 (A)

Table 1*

*In the above table, standard costs as per previous trends and budgeted costs after future assessment are given for the production of 10,000 units.

From the above table we can see that the company can suffer an overall cost of Rs. 2,300 in future. This adversity can be seen in forthcoming period because of the following reasons-

1) There is an adverse amount of Rs. 10,000 in raw materials which is needed to be reduced in order to control the cost. It will be the responsibility of purchase manager to make quick decision in order to avoid this adversity in actual. Since the production manager is aware about the future cost increment, he can avoid the same to the possible extent and save the company's cost.
2) In case of direct labour, the company is having favourable difference and hence no further decision making will be required which will save the time of factory manager and the same time can be made effective by investing it in some required areas.
3) In case of the variable overheads, there is an adverse amount of Rs.300 which is immaterial for the company and hence can be ignored.
4) There is no difference in fixed costs and hence can be ignored.

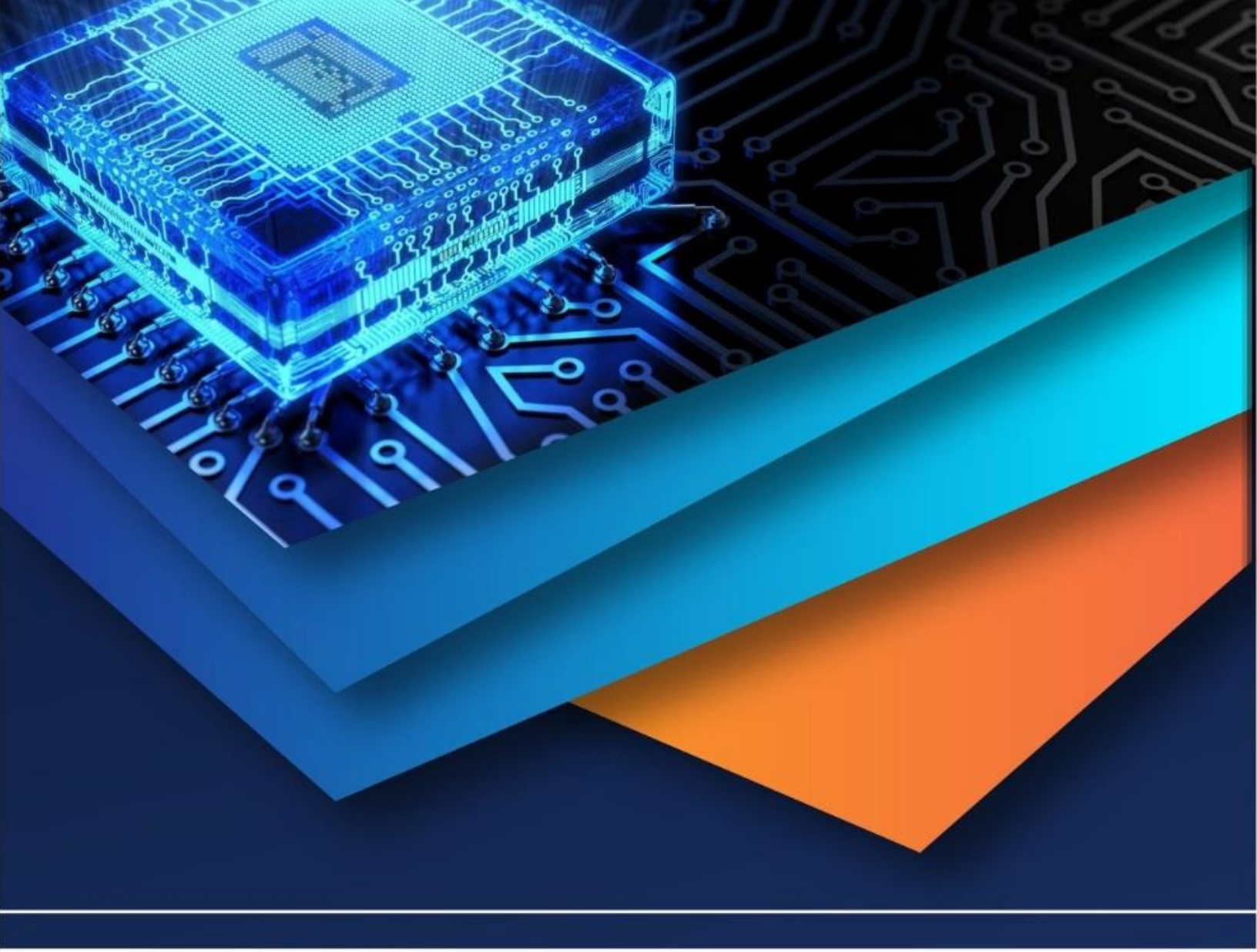
Since we made a comparison between standards and budgets, the managers can make required decisions on time before actually incurring the costs resulting into a proactive approach, which on the other hand would have been a reactive approach if we inserted actual costs into it.

IV. CONCLUSION

When we follow standard costing, we find out variance and then we realize what changes are required in further process of production. Similarly, when we use budgetary control, we realize that we did not stand with the targets after actually incurring the cost. Both methods help in cost decision making but ultimately both are reactive methods. Instead of considering the actual figures with budgets and standards, if companies compare standards with the budgets, they can realize in advance what good or adverse will happen in future after actually incurring the costs. If this proactive approach is used, decisions can be taken at early stage and managers can save time as well as control costs as per the requirements

REFERENCES

[1] www.transtutors.com
[2] Principles of Accounting. Vol. 2. Managerial Accounting from www.opentextbc.com
[3] My Accounting Course. Budgeted Cost from www.myaccountingcourse.com
[4] Sankalp Kanstiya, Shreya Kanstiya, (2019). Strategic Cost Management and Performance Evaluation Optimised 4.0. Vol. 1. No. 10 & 11



10.22214/IJRASET

45.98

IMPACT FACTOR: 7.129

IMPACT FACTOR: 7.429

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Call : 08813907089 (24*7 Support on Whatsapp)