A STUDY OF COST MANAGEMENT SYSTEM AND ITS IMPACT ON PRODUCTIVITY

Vandana Samir Mankar

Research Scholar, Mamasaheb Mohol College, Pune

Dr Neeta B. Kamble

Research Guide, Mamasaeb Mohol College, Pune

Abstract

Estimation, budgeting, and cost control are all steps in the process of cost management. This style of management seeks to boost profitability and productivity inside an organisation. Understanding cost management will make it easier for you to comprehend how a business determines and classifies expenses in accordance with project needs and why it plays a crucial part in planning, regulating, and decision-making. Different cost accounting techniques are used in cost management for businesses in an effort to increase cost efficiency by cutting costs or at the very least limiting cost growth.

Keywords: Cost Management, Productivity, Efficiency, Techniques

Introduction

The primary goal of businesses is to maximise profit, which is made possible by strong management techniques that may give managers all the information they need to make the best business decisions. In this case, cost is a key factor to consider. Management necessitates special consideration. Controlling all firm expenses through cost management is crucial for effective financial planning, which includes managing cash flow and identifying the resources available for new investment. The practise of organising and regulating a company's operating expenses is known as cost management. In order to budget, anticipate, and monitor costs more accurately, it also involves gathering, evaluating, and reporting cost information. Cost management techniques can be used for particular projects or the business's overall operations. The company's entire operating model or particular initiatives can both benefit from the application of cost control strategies. Cost management frequently concentrates on making savings and increasing earnings over the long run. Since the start of the industrial revolution, cost accounting has existed. Cost Accounting, however, is becoming more significant today. Cost management makes it possible to lower costs and boost profit margins since it makes it easy to spot wasteful spending that isn't producing a return and superior investment opportunities.

Review of Literature

Cost Management: Control and Profitability https://catalogimages.wiley.com

Kaizen Cost Management Technique and Profitability of Small and Medium Scale Enterprises (SMEs) in Ogun State, Nigeria: Research Journal of Finance and Accounting www.iiste.org ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online) Vol 3, No 5, 2012: OLABISI Jayeola1* SOKEFUN, A. O. 1. OGINNI, B.O.1.2 - The study examines the relationship that exists between Kaizen cost management technique and profitability of small and medium scale enterprise in Ogun State, Nigeria. It evaluates the nature of Kaizen cost management technique and how it can be adopted to reduce and control operational costs of SMEs.

Use of Cost Accounting in cost management: Grzegorz Lew, Article in Prace Naukowe uniwerstetu Ekonomicznego – January 2019

Objectives

1) To understand the Cost Management System
2) To study the advantages of cost Management system
3) To study of impact on CMS on Productivity

Research Methodology

This Research Paper is a descriptive paper based on secondary data collected from different research journals, articles.

Cost Management helpful for many business, an effective Cost Management is also important because-

1) It makes it possible to keep tabs on the company's financial situation and uses this data to inform decision-making that propels the business towards sustainable growth.
2) It improves the institution's financial planning, particularly by streamlining and effectively planning and calculating expenditures.
3) It enables the identification of superfluous expenses that are not producing a return as well as superior investment prospects, which raises the profit margin and allows for cost reduction.

Controlling a company's actual or anticipated costs is known as cost management. A corporation must practise effective cost management otherwise it will struggle to continuously turn a profit. The easiest way to implement this idea is through a formalised process that includes any or all of the following steps:

1) Gather Cost Data: Actual Cost Data is normally gathered from the General Ledger, but it can also be gathered using an activity-based costing system or other less formal data gathering techniques.
2) Examine options for cost reduction: This stage may involve categorising expenses as fixed, variable, or mixed costs, reviewing costs on a trend line, evaluating the effects on bottleneck operations, and comparing costs to those of benchmark firms.
3) Report Results: Inform management of the analysis' findings and suggest next steps.
4) Install controls - Put in place controls to make sure that management-imposed changes are followed as planned.
5) Keep an eye on changes: Keep an eye on any modifications that management imposes as a result of this to observe how they affect the company's cost structure.

Cost control for upcoming activities

- Cost management operations are slightly different if a company is attempting to control costs for upcoming projects like product design or the construction of additional offices.

Principal Elements of Cost Management

1. Cost projection
2. Cost Planning
3. Techniques for Cost Control and Cost Management:

1. Cost control and cost reduction - Cost control is a technique that provides the management with the information they need to determine whether or not real costs are in line with anticipated costs.

2. We employed the cost-reduction technique to reduce the product's unit cost without sacrificing its quality. Cost reduction focuses on lowering the price of a product per unit, whereas cost control focuses on lowering the entire cost of manufacturing.
3. Activity-Based Costing (ABC) - ABC is a technique for allocating overhead and indirect expenses to goods and services, such as salaries and utilities. The ABC system of cost accounting is built around activities, which are defined as any occasion, project, or task with a clear objective.
4. Target costing: It calculates product costs by deducting a desired profit margin from a price that is competitive in the market. The target cost is primarily customer-focused and a crucial idea for as it refers to the competitive market.
5. Life Cycle Costing - Businesses of all sizes and types can benefit greatly from life cycle costing. It provides an accurate assessment of expenses across a product's lifetime. Businesses typically want to purchase goods with a lower upfront cost. The operational costs, recurrent charges, and maintenance costs can, however, build up over time. When these factors are taken into account, the product may end up being significantly more expensive than one with a greater initial cost but lower ongoing costs. Even though life cycle costing takes time, it can reveal expenses that make decision-making easier.

Productivity

By comparing the quantity of goods and services produced (output) with the quantity of inputs required to generate those goods and services, productivity is a measure of economic performance. Productivity is a measure of how effectively commodities or services are produced. Productivity is sometimes represented as a ratio of the whole output to a single input or the total input used in a production process, or output per unit of input, usually over a predetermined time period. When inputs grow slower than output, productivity rises. Additionally, you might see a gain in productivity when a business produces the same amount of output with fewer inputs.

Every productive and prosperous company recognises the value of workplace productivity. Certain pricing power, one might anticipate bigger profit margins per unit based on reduced cost of production due to higher creation process efficiency. The more productive a given organisation is, the less expensive its product will be.

Manufacturing industries may increase their productivity using a variety of cost management approaches with the use of a cost management system. The objective of cost management is substantially broader than that of standard costing systems. Understanding the cost structure of the company is essential for cost management. Information for internal users is produced by cost management. Information that is helpful for managers is identified, gathered, measured, classified, and reported by cost management.

1. Calculating the costs of a product, customers, suppliers, and other important objects is necessary for decision-making, planning, control, and continuous improvement.
2. Benefits of a cost management system include:
3. It assists in reducing project-specific costs, which in turn lowers total business costs.
4. Future costs and expenses can be predicted, and work towards expected income in accordance.
5. Records for the business can be kept for predefined prices.
6. It assists in taking the required steps to ensure that the resources and business operations are directed towards achieving the set objectives and goals.
7. It aids in the analysis of the industry's long-term tendencies.

8. The actual costs incurred and the forecasted costs can be compared to see whether part of the firm is spending more than anticipated.
9. It assists in analysing the business positioning with regard to potential acquisitions while taking into account the associated costs.

Conclusion

With the proper implementation of the cost management system, the management of the organisation is able to know when the cost will be incurred in the future and can make an educated and appropriate decision for the actions that must be taken, which affects the performance of the organisation. Cost management enables both cost reduction and productivity improvement.

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