# UNIT -3 MANAGEMENT ACCOUNTING AND COST ACCOUNTING

Management accounting collects data from cost accounting and financial accounting. Thereafter, it analyzes and interprets the data to prepare reports and provide necessary information to the management.

On the other hand, cost books are prepared in cost accounting system from data as received from financial accounting at the end of each accounting period.

The difference between management and cost accounting are as follows:

| S.No. | Cost Accounting | Management Accounting |
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| 1 | The main objective of cost accounting is to assist the management in cost control and decision-making. | The primary objective of management accounting is to provide necessary information to the management in the process of its planning, controlling, and performance evaluation, and decision-making. |
| 2 | Cost accounting system uses quantitative cost data that can be measured in monitory terms. | Management accounting uses both quantitative and qualitative data. It also uses those data that cannot be measured in terms of money. |
| 3 | Determination of cost and cost control are the primary roles of cost accounting. | Efficient and effective performance of a concern is the primary role of management accounting. |
| 4 | Success of cost accounting does not depend upon management accounting system. | Success of management accounting depends on sound financial accounting system and cost accounting systems of a concern. |
| 5 | Cost-related data as obtained from financial accounting is the base of cost accounting. | Management accounting is based on the data as received from financial accounting and cost accounting. |
| 6 | Provides future cost-related decisions based on the historical cost information. | Provides historical and predictive information for future decision-making. |
| 7 | Cost accounting reports are useful to the management as well as the shareholders and creditors of a concern. | Management accounting prepares reports exclusively meant for the management. |
| 8 | Only cost accounting principles are used in it. | Principals of cost accounting and financial accounting are used in management accounting. |

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| 9 | Statutory audit of cost accounting reports are necessary in some cases, especially big business houses. | No statutory requirement of audit for reports. |
| 10 | Cost accounting is restricted to cost-related data. | Management accounting uses financial accounting data as well as cost accounting data. |

## What Is Relevant Cost?

Relevant cost is a managerial accounting term that describes avoidable costs that are incurred only when making specific business decisions. The concept of relevant cost is used to eliminate unnecessary data that could complicate the decision-making process. As an example, relevant cost is used to determine whether to sell or keep a business unit.

The opposite of a relevant cost is a sunk cost, which has already been incurred regardless of the outcome of the current decision.

KEY TAKEAWAYS

- Relevant costs are only the costs that will be affected by the specific management decision being considered.
- The opposite of a relevant cost is a sunk cost.

- Management uses relevant costs in decision-making, such as whether to close a business unit, whether to make or buy parts or labor, and whether to accept a customer's last-minute or special orders.

## Example of Relevant Cost

Assume, for example, a passenger rushes up to the ticket counter to purchase a ticket for a flight that is leaving in 25 minutes. The airline needs to consider the relevant costs to make a decision about the ticket price. Almost all of the costs related to adding the extra passenger have already been incurred, including the plane fuel, airport gate fee, and the salary and benefits for the entire plane’s crew. Because these costs have already been incurred, they are "sunk costs" or irrelevant costs.

## Types of Relevant Cost Decisions

### Make vs. Buy

Make vs. buy decisions are often an issue for a company that requires component parts to create a finished product. For example, a furniture manufacturer is considering an outside vendor to assemble and stain wood cabinets, which would then be finished in-house by adding handles and other details. The relevant costs in this decision are the variable costs incurred by the manufacturer to make the wood cabinets and the price paid to the outside vendor. If the vendor can provide the component part at a lower cost, the furniture manufacturer outsources the work.

### Factoring in a Special Order

A special order occurs when a customer places an order near the end of the month, and prior sales have already covered the fixed cost of production for the month. If a client wants a price quote for a special order, management only considers the variable costs to produce the goods, specifically material and labor costs. Fixed costs, such as a factory lease or manager salaries, are irrelevant because the firm has already paid for those costs with prior sales.

## Product line Addition or Deletion:

A firm may add or delete existing ones or do both in the existing product lines. The firm may also upgrade its technology and use upgrades its technology or may decide to stretch product line downwards a more simple technology.

Thus, in case of Bajaj Electricals, when it decided to launch the state of the art washing machine in collaboration with a in multi-national it was wrong up in technol: