

# COST ACCOUNTING VS FINANCIAL ACCOUNTING

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Both cost accounting and financial accounting help the management formulate and control organization policies. Financial management gives an overall picture of profit or loss and costing provides detailed product-wise analysis.

No doubt, the purpose of both is same; but still there is a lot of difference in financial accounting and cost accounting. For example, if a company is dealing in 10 types of products, financial accounting provides information of all the products in totality under different categories of expense heads such as cost of material, cost of labor, freight charges, direct expenses, and indirect expenses. In contrast, cost accounting gives details of each overhead product-wise, such as much material, labor, direct and indirect expenses are consumed in each unit. With the help of costing, we get product-wise cost, selling price, and profitability.

The following table broadly covers the most important differences between financial accounting and cost accounting.

| <b>Point of Differences</b> | <b>Financial Accounting</b>  | <b>Cost Accounting</b>   |
|-----------------------------|--|--|
| Meaning                     | Recording of transactions is part of financial accounting. We make financial statements through these transactions. With the help of financial statements, we analyze the profitability and financial position of a company. | Cost accounting is used to calculate cost of the product and also helpful in controlling cost. In cost accounting, we study about variable costs, fixed costs, semi-fixed costs, overheads and capital cost. |
| Purpose                     | Purpose of the financial statement is to show correct financial position of the organization.  | To calculate cost of each unit of product on the basis of which we can take accurate decisions.  |
| Recording                   | Estimation in recording of financial transactions is not used. It is based on actual transactions only.  | In cost accounting, we book actual transactions and compare it with the estimation. Hence costing is based on the estimation of cost as well as on the recording of actual transactions.                     |
| Controlling                 | Correctness of transaction is important without taking care of cost control.   | Cost accounting done with the purpose of control over cost with the help of costing tools like standard costing and budgetary control.   |
| Period                      | Period of reporting of financial accounting is at the end of financial year.   | Reporting under cost accounting is done as per the requirement of management or as-and-when-required basis.  |
| Reporting                   | In financial accounting, costs are recorded broadly.   | In cost accounting, minute reporting of cost is done per-unit wise.  |
| Fixation of Selling Price   | Fixation of selling price is not an objective of financial accounting.   | Cost accounting provides sufficient information, which is helpful in determining selling price.  |
| Relative Efficiency         | Relative efficiency of workers, plant, and machinery cannot be determined under it.  | Valuable information about efficiency is provided by cost accountant.  |
| Valuation of Inventory      | Valuation basis is 'cost or market price whichever is less'  | Cost accounting always considers the cost price of inventories.  |

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| Process | Journal entries, ledger accounts, trial balance, and financial statements | Cost of sale of products, addition of margin and determination of selling price of the product. |
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