Introduction to Cost Accounting Systems Tutorial

Summary

Cost accounting systems are designed to determine the cost of cost objects. Cost is a measurement in money terms of resources used for some purpose. A cost object is the thing being costed.

Cost system designers classify costs as being either direct or indirect costs. Direct costs are those costs that can be directly traced to the cost object in an economical and feasible manner. Indirect costs are those costs that cannot be classified as direct costs.

Cost systems assign direct costs directly to the cost object. Indirect costs are first assigned to cost pools using a resource driver and a resource driver rate. The pooled costs are then allocated to the cost object using appropriate cost drivers and cost driver rates. The allocation of indirect costs costs using cost pools is known as a two-stage costing system.

The total cost of each cost object is the sum of the direct costs and the indirect costs that have been allocated to it through the two-stage costing system.
There are a number of variations on this basic cost system design. These include:

- **Job order cost systems** - The principle cost object is a job or order.
- **Process cost system** - Units of production are the principal cost object.
- **Direct cost system** - Only the related direct costs are assigned to the cost object.
- **Full cost system** - Both the related direct and indirect costs are assigned to the cost object.
- **Standard cost system** - Estimates of how much an item should cost, rather than its actual costs, are assigned to the cost object.

**Expectations**

Now that you have completed the *Introduction to Cost Accounting Systems* tutorial, you should understand:

- The difference between direct and indirect costs.
- The difference between standard and actual costs.
- The basic structure and output of several different cost accounting systems such as job costing, process costing, direct cost, full cost, and standard cost systems.

We hope this tutorial was helpful.