

# General Principles of Cost Accounting

## **1. Cause-Effect Relationship:**

Cause-effect relationship should be established for each item of cost. Each item of cost should be related to its cause as minutely as possible and the effect of the same on the various departments should be ascertained. A cost should be shared only by those units which pass through the departments for which such cost has been incurred.

## **2. Charge of Cost Only after its Incurrence:**

Unit cost should include only those costs which have been actually incurred. For example unit cost should not be charged with selling cost while it is still in factory

## **3. Past Costs Should not Form Part of Future Costs:**

Past costs (which could not be recovered in past) should not be recovered from future costs as it will not only affect the true results of future period but will also distort other statements.

## **4. Exclusion of Abnormal Costs from Cost Accounts:**

All costs incurred because of abnormal reasons (like theft, negligence) should not be taken into consideration while computing the unit cost. If done so, it will distort the cost figures and mislead management resulting in wrong decisions.

## **5. Principles of Double Entry Should be Followed Preferably:**

To lessen the chances of any mistake or error, cost ledgers and cost control accounts, as far as possible, should be maintained on double entry principles. This will ensure the correctness of cost sheets and cost statements which are prepared for cost ascertainment and cost control.