

What's the Difference Between Cost Accounting and Management Accounting?

5 min read



Key Takeaways

- **Use and Application:** Cost accounting and management accounting are used differently. Here is the KEY difference between the two methods...
- **Reporting:** Although the reports differ, cost accounting reports are necessary for management accounting to generate profit and loss statements by class, identify business drivers, and support data-based decision-making.
- **5 Different Types of Cost Accounting:** Standard Cost Accounting, Activity-Based Cost Accounting, Lean Accounting, Marginal Cost Accounting and Environmental Cost Accounting

Spoiler alert: Both cost accounting and management accounting are *intended* for internal use by business leaders. Smart leaders use it to **improve organization operations** and **boost the bottom line**.

Neither management accounting nor cost accounting standards exist for external review such as the way that financial accounting is held to the GAAP rules- but they both DO help business owners make smart, profit-driving decisions

To see how the two types of accounting differ, we'll look at their definitions and more closely at the ways in which they are used in business management.

Cost Accounting vs. Management Accounting

Cost Accounting Fundamentals

Cost accounting is the process of tracking, recording, reporting, and analyzing all the costs associated with producing a product or offering a service.

Cost accounting looks at both direct, indirect, fixed, and variable costs in addition to the costs associated with every step of your business's operations. Using actual, historical financial data, cost accounting aims to calculate, control, and reduce costs.

Management Accounting Fundamentals

Management accounting looks at every aspect of a business's financials and operations, including its costs, to offer not just a quantitative analysis, but also a qualitative analysis to help facilitate better decision making and improved business strategy based on both historical data and projected figures.

Read More: [Financial Reports Vs. Management Reports: What's The Difference](#)

Key Differences Between Cost Accounting and Management Accounting

Use and Application

Cost accounting and management accounting are used differently.

The **KEY** difference between the two methods :

- Cost accounting helps lower costs prevent businesses from exceeding the budget, and helps increase efficiency.^[1]
- Management accounting provides a bigger financial picture, historical data, and future financial projects that inform decision-making and strengthen business strategy.

Scope and Interdependence

Cost accounting only deals with costs.

Management accounting analyzes every aspect of the business, including costs.

Since management accounting encompasses all aspects of the business's financials, cost accounting is actually a subset of management accounting.

As a result, successful management accounting depends on accurate cost accounting. However, your company's management accounting procedures have no effect on the success of your cost accounting processes.

Reporting

Cost accounting uses cost reports to record and report the total costs of operating. This differs from the reports used in management accounting which includes reports like cash flow forecasts and profit and loss statements by class.

Although the reports differ, cost accounting reports are necessary for management accounting to generate profit and loss statements by class, identify business drivers, and support data-based decision-making.

A Closer Look: 5 Different Types of Cost Accounting

1. Standard Cost Accounting

Standard cost accounting assigns amounts that are considered to be standard to a company's cost of goods sold (COGS), instead of the amount of the actual costs.

The standard costs (also called efficient costs) are those that exist under normal operating conditions with efficient use of labor, time, and the anticipated costs of materials. In other words, standard costs are like a budget that can be used to show your anticipated COGS.

When compared to actual costs, you'll see a variance between the standard costs and actual costs. If actual costs are higher than standard costs, then you have an unfavorable variance. If they're lower, then it's a favorable variance. Analyzing the variance can be useful to help improve efficiencies, budgeting, and profits.

2. Activity-Based Cost Accounting

Activity-based cost (ABC) accounting (also sometimes called job costing) computes costs at the granular level by unit.

With activity-based costing, all kinds of expenses (direct, indirect, variable, fixed, materials, and labor) are allocated to specific "activities" or jobs which can be activities like different types of services and specific tasks or other aspects of your business such as clients, departments, employees, or products.

Read More: [Time-Driven Activity-Based Costing - An Integral Part of Management Accounting](#)

Activity-based costing is highly useful in that it allows you to pull profit and loss statements at the management accounting level by unit. This lets you see your true costs, your profits, and your profit margins with respect to just about any aspect of your business.

With ABC accounting, you can identify which clients, service types, jobs, tasks, employees, or departments are the true profit drivers in your business and which ones might be costing you more than you realize.

3. Lean Accounting

Lean accounting looks at costs with the goal of minimizing waste and maximizing efficiency to facilitate the most efficient business operation possible.

Lean accounting aims to improve overall financial management to maximize ROI and profit margins.[2]

4. Marginal Cost Accounting

Marginal cost accounting (also called cost-volume-profit analysis) analyzes your break even point and contribution margins to determine the amount a specific service or product contributes to your company's overall profits.

This type of costing can be used to measure the impact that volume and varying costs have on your profits in addition to helping to optimize prices, evaluate marketing campaigns, or even to consider the viability of introducing new services or products.

5. Environmental Cost Accounting

This type of cost accounting tracks expenses related to the environmental impact cost of providing a service or producing a product. Not every type of business needs to look at environmental impact costing, but it can be highly useful in certain industries where these expenses can be significant, such as in construction.

Environmental costs associated with operation can include things like waste management, dealing with contaminated job sites, preventing and reducing pollution, implementing pollution prevention technologies, and the costs of cleaning up.

Environmental costing considers these kinds of expenses in relation to the overall cost of production and their effect on a business's profit margins.

Read More: [Triple Bottom Line: What Is It & Why Is It Important For My Business?](#)

Additionally, if you're operating in an industry where the public eye is on your business and its environmental impact, you can use these numbers to improve your public image through public relations that tout your efforts to reduce your footprint.

Implementing a Cost Accounting System to Support Successful Management Accounting

The fundamentals of cost accounting seem simple at first glance. You're likely already tracking and recording expenses to produce a balance sheet and income statement for your financial accounting responsibilities.

As your business grows, however, tracking, categorizing, and allocating costs to specific jobs, clients, projects, departments, etc. can become overwhelming. This is why we recommend automating your bookkeeping and accounting processes as early as possible not only to streamline cost accounting processes but also financial accounting and management accounting processes.

Automation saves time and resources while also improving your business's back-office function. With technology designed to automate expense tracking and time tracking, you'll also enjoy more dynamic, accurate, and readily available management reports.

With the right technology and back-office procedures, you can implement an efficient and accurate cost accounting system designed to support successful management accounting for a bolstered business strategy and brighter future.

[1] [investopedia.com/terms/c/cost-accounting.asp](https://www.investopedia.com/terms/c/cost-accounting.asp)

[2]

<https://www.journalofaccountancy.com/issues/2004/jul/thelowdownonleanaccounting.html>