CHAPTER –I

INTRODUCTION

1.1 Introduction:

Small Scale Industries is a significant segment of the every developing economy because they require achieving basic objectives for the society such as optimum production, regional imbalance, education and employment, infrastructural development, standardization in living of the society etc. The progress of industrialization over the last Fifty to Sixty years has been a striking feature of the Indian economy. A number of policies statements on industrial development have been made by the government of India after independence with the industrial policy of 1948. “In industrial revolution of 1956 laid down the role to be assigned to an approach of the government towards small scale industries in the country.”(1) The evolution of the policy framework and support measures of the Government can be broadly grouped into the following three periods. In all the Policy Resolutions from 1948 to 1991, recognition was given to the micro and small enterprises, termed as an effective tool to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resources of capital and skills. The Micro, Small and Medium Enterprises
Development Organization [Today known as Small Industries Development Organization (SIDO)] was set up in 1954 as an apex body for sustained and organized growth of micro, small and medium enterprises. Within next two years, the National Small Industries Corporation, the Khadi and Village Industries Commission and the Coir Board were also set up. The era provided the supportive measures that were required to nurture MSEs, in the form of reservation of items for their exclusive manufacture, the industrial policy reforms have reduced the industrial licensing requirements, removed restrictions on investments & expansions and facilitated easy access to foreign technology as well as foreign direct investments. Since August, 1991 up to August, 2010 the total 16,140 industrial projects with an investment of Rs. 6,95,516 crore generating 30.24 lakh employment have been approved by the Government of India for setting up industries/mega projects in the State. Maharashtra has remained one of the favored destinations for industrial investment in the country maintaining status of the most industrialized State and has successfully attracted a large share of industrial investments in the post liberalization era, from both domestic as well as foreign entities.

Maharashtra is one of the leading states in India in concern of development of industrialization. The Maharashtra State has adopted the Special Economic Zone Policy (SEZ) with effect from 10\(^{th}\) February
The special economic zone notified as duty free enclaves, have a relaxed and business friendly policy regime, aimed at promoting rapid industrial development and employment generation. It is expected that this will trigger inflow of large foreign and domestic investments in infrastructure for special economic zone and productive capacities, which will lead to generation of additional economic activities and employment opportunities. Up to 31st December 2010, 233 special economic zone proposals were received in the State government of Maharashtra, of which 143 special economic zone were approved by the Central Government out of them, 105 formal and 38 in principle approvals and 63 special economic zone proposal are notified.

The main objective of the small scale industries are creation of largest employment and job opportunities, including self employment, venture with small doses of investment, production of consumer goods on large scale, mobilization of local skills resources and capital and dispersal of units into semi urban and rural areas. Industrialization has become a necessity and is virtually synonymous with civilization. As a developing country Indian government has specially emphasis on program of nourishing the small scale industries because of small industries comprehensively assist to the economy.
1.2 Meaning of Small Scale Engineering Industries:

The definition of small scale industries varies from one country to another. In most of the countries of the world, the criterion for defining a small enterprise is related to the size of employment. For instance, in the United States, small business is one which has employment of less than 500 people. In United Kingdom, it is less than 20 skilled workers, in Germany less than 300 workers, in Sweden and Italy less than 50 and 500 people respectively. In some countries, both employment and investment are taken into account. In Japan, investment in industrial undertaking should not exceed 100 million employing not more than 300 employees. In South Korea, investment limit is 2 lakh dollars and employment limit being 200 people. In India these Rules applied to every company engaged in the production, processing or manufacture sector; The classes of engineering goods as specified in the Appendix in the Cost Accounting Records (Engineering Industries) Rules in 1984 and those added by the Central Government from time to time by notification in the Official Gazette excepting those companies falling under the category “Small Scale Industrial Units”.

Explanation - For the purpose of this rule, the expression of “small scale industrial undertaking” means a company or industry –
“A small scale industrial undertaking means an industrial undertaking which, in accordance with the requirements specified under sub-section (1) of section 11B, is entitled to be regarded as a small scale industrial undertaking for the purposes of this Act.”

i. The aggregate value of the machinery and plant installed wherein does not exceed the limit as specified for a small scale industries undertaking under the Industrial Development and regulation Act, 1951 (65 of 1951), as on the last date of the preceding financial year.

ii. The aggregate value of the realization made by the company from the sale or supply of all its products during the previous financial year does not exceed ten crore rupees.

List of engineering goods for which the Rules shall apply:

- Absorber
- Die Casting
- Transformer
- Automobile Spare Parts
- Bearings
- Break Parts
- Circlips
- CNC Job Work
- Compressor Product
1.3 Definition of Small Scale Industries:

Micro, Small and Medium Enterprise as per Micro Small and Medium Enterprise Development ACT 2006, are defined on the basis of their investment in plant and machinery for manufacturing enterprise and on equipments for enterprise providing or rendering services. The present ceiling on investment for enterprise to be classified into two categories

i) Manufacturing and
ii) Those engaged in providing of services

Both the categories of enterprise have been further classified into small scale enterprise based on their investments in plant and machinery for manufacturing enterprise and on equipments in enterprise providing services.

“The present criteria are classified as small enterprises is as under

i. For Manufacturing Enterprise investment above Rs.25 Lakhs ($ 50 thousand) and up to the Rs.5 Crore ($ 1 million)

ii. For Service Enterprise investment above Rs.10 Lakhs ( $ 20 thousand) and up to Rs.2 Crore ($ 0.40 millions)

Excluding Fixed cost obviously higher.”(3)

The above criteria state that the present scenario for the small scale industries in Maharashtra and India also.

1.4 Role of Small Scale Industries:

Every country’s economy is depend upon some basic sectors such as Agriculture, Entrepreneurship, Industrialization, Service sectors, Tourisms and strong infrastructure and so on. Basically all developed and developing countries mostly depend on the industrialization therefore they made special resolutions relating to continues up gradation in the same sector. In India there are different categories of industries such as Micro & Small Scale, Medium Scale and Large Scale Industries. Small scale
industries plays very important role in the development of Indian economy. Maharashtra is the leading state in generating investment and employment in the country is 10 percent and 15 percent respectively.

“Total 20,484 industrial projects, including Foreign Direct Investment projects with an investment of Rs. 9,20,121 crore have been approved for setting up new industries in the State during 1991 to 2010. By the end of the year 2010 with an investment of Rs.1, 95,407 crore, in 8,322 projects were commissioned. Total 796 industrial project including Foreign Direct Investment projects with an investment of Rs. 1, 51,209 crore and 2, 25,710 employment were approved during year 2009 - 2010. During the same period, 36 projects with an investment of Rs. 8,673 crore and employment of 9,458 were commissioned.”(4)

Micro, Small and Medium scale sectors produce huge volume of production and employment which is basic need of Indian economy.

1.5 Evolution of Costing System:

As per available resources cost accounting basic can be seen from the 15th Century, there was no accounting system and it was the barter system prevailed. It was in the last years of 15th century Luca Pacioli, an Italian found out the double entry system of accounting in the year 1494. Later it was developed in England and all over the world up to 20th Century. During these period, the purpose of Cost Accounting needs are
served as a small branch of Financial Accounting except a few cases like Royal wallpaper manufactory in France (17th Century), and some iron masters & potters in England (18th century)

The period of 1880 AD- 1925 saw the development of complex product designs and the emergence of multi activity diversified corporations like Du Pont, General Motors etc. It was during this period that scientific management was developed which led the accountants to convert physical standards into Cost Standards, the latter being used for variance analysis and control.

“During the World War I and II the social importance of Cost Accounting grew with the growth of each countries defense expenditure.”\(^{(5)}\) In the absence of competitive markets for most of the material required for war, the governments in several countries placed cost-plus contracts under which the price to be paid was cost of production plus an agreed rate of profit. The reliance on cost estimation by parties to defense contracts continued after World War II.

In addition to the above, the following factors have made accountants to find new technique to serve the industry:-

- Limitations placed on financial accounting,
- Improved cost consciousness,
- Rapid industrial development after industrial revolution and world wars,
• Growing competition among the manufacturers,
• To control galloping price rise, the cost of computing the precise cost of product / service,
• To control cost several legislations passed throughout the world and India too such as Essential Commodities Act, Industrial Development and Regulation Act.

Due to the above factors, the Cost Accounting has emerged as a specialized discipline from the initial years of 20\textsuperscript{th} century i.e after World War I and II. In India, prior to independence, there were a few Cost Accountants, and they were qualified mainly from Institute of Cost and Management Accountants now Chartered Institute of Management Accountants United Kingdom. During the Second World War, the need for developing the profession in the country was felt, and the leadership of forming an Indian Institute was taken by some members of Defence Services employed at Kolkata. However, with the enactment of the Cost and Works Accountants of India Act, 1959, the Institute of Cost and Works Accountants of India (Now called as Institute of Cost Accountants of India) was established at Kolkata. The profession assumed further importance in 1968 when the Government of India introduced Cost Audit under section 233(B) of the Companies Act, 1956.

Many times we use Cost Accounting, Costing and Cost Accountancy interchangeably. But there are differences among these terms. As a
professional, though we use interchangeably it we must know the meaning of each term precisely.

1.6 Meaning of Cost Accounting:

In the modern and developing phase of business, organizations have come very complicated because many parties interested in the business functioning like owner, investors, employees, finance lenders, customers, tax authorities and government. Accounting includes different accounting branches which functioning for achieving different accounting objectives such as financial accounting functioning to know how the financial position of the business, cost accounting functioning to accumulation, classification, analysis, allocation, summarization, interpretation, reporting and control over all the cost of product and services and management accounting functioning for the purpose managerial decisions. Cost Accounting is the second expanded branch of the financial accounting, originally it started functioning as a second branch of accounting, and it has created its own independent place, methods and techniques. Cost accounting has been developed so quickly and the fields covered by it are widening day by day. Hence it’s difficult to give a suitable definition of cost accounting which would cover all its aspects “A Cost accounting is the classification, recording, and appropriate allocation of expenditure for the determination of the cost of
product and services for the presentation of data suitable arranged data for the purpose of control and guidance of management. Cost Accounting may be defined as “Accounting for costs classification and analysis of expenditure as will enable the total cost of any particular unit of production to be ascertained with reasonable degree of accuracy and at the same time to disclose exactly how such total cost is constituted.”

Thus Cost Accounting is classifying, recording an appropriate allocation of expenditure for the determination of the costs of products or services.

Cost Accounting is explained as follows:

Cost Accounting is the process of accounting for cost which begins with recording of income and expenditure and ends with the preparation of statistical data. It is the formal mechanism by means of which cost of products or services are ascertained and controlled. Thus Cost Accounting is a quantitative method that collects, classifies, summarizes and interprets information for product costing, operation planning and control and decision making.

1.7 Objectives of Cost Accounting:

Cost Accounting has different objectives in the industry to achieving their basic requirement; some of them important cost accounting objectives are explaining as under.
• To ascertain the cost of production or services on per unit basis, for example, cost per kg, cost per meter, cost per litre, cost per ton, as per the applicability of the concerned business undertaking.

• Cost accounting provides exact information to determination the selling price of the product. Cost accounting enables to determine the cost of production on a scientific basis and it helps to fix the selling price,

• Cost accounting Provides cost control and cost reduction at all stages of production,

• Cost accounting provides analytical information of profitability as per each activity, each transaction, each job, each process and each department in the working of undertakings.

• Cost accounting also helps in locating wastages, inefficiencies and other loopholes in the production processes/services offered by manufacturing concerns,

• Cost accounting provides proper and relevant information to the management which helps in further decision making for future period, and

• Cost accounting also provides the information for estimation of future cost and planning of the undertakings.
1.8 Concept of Cost, Costing, Cost Accounting and Cost Accountancy:

Cost Accounting is different than the financial accounting on the basis of work nature and basic aim of the accounting system. Financial Accounting works on the basis of double entry book keeping system and cost accounting works on the data generated by the financial accounting for the purpose of financial analysis. Cost Accountancy is a wider term than the financial accountancy due to working on the financial record of financial accounting and cost determination and analysis of cost accounting. In today’s competition, any business organization has to pay attention towards their cost management and total cost of production. Computation of cost on scientific basis and thereafter cost control and cost reduction has become of paramount importance. Hence it has become essential to study the basic principles and concepts of cost accounting. Following are the concepts explained with proper meaning.

1.8.1 Cost:

Cost means total of all expenses incurred actual or outstanding in the production of the product. According to Anthony and Weldon cost is a measurement in monetary terms of the amount of resources used for some purposes “Cost means the amount paid for something or determined for something. Cost can be defined as the expenditure (actual or notional)
incurred on or attributable to a given thing.”(7) It can also be described as the resources that have been sacrificed or must be sacrificed to attain a particular objective and aim. In other words, cost is the amount of resources used for something which must be measured in terms of money. Thus cost of production or cost of service can be calculated by ascertaining the resources used for the production or services.

1.8.2 Costing:

Costing is the process of cost determination of product or services by using different techniques and rules of cost accounting. As per CIMA London Costing is ‘the technique and process of ascertaining costs’. Costing is the proper allocation of cost to the determination of product cost at different level. According to Wheldon, “Costing is classifying, recording, allocation and appropriation of expenses for the determination of cost of products or services for the purpose of controlling and ascertainment of cost.”(8) Which includes the ascertainment of every order, job, contract, process, service units as may be appropriate. It deals with the cost of production, cost of administration and selling and distribution. After analyzing the above definitions, it is be understood that costing is basically the procedure of ascertaining the costs. As mentioned above, for any business organization, ascertaining of costs is must and for this purpose a scientific procedure should be followed. ‘Costing’ is precisely
this procedure which helps them to find out the costs of products or services.

1.8.3 Cost Accounting:

Cost Accounting is the procedure of accounting of cost at different level in the organization, cost accounting starting from the recording of cost record and ends with preparation of periodical required statement to the management. Cost Accounting basically deals with “collection, analysis of relevant of cost data for interpretation and presentation for various problems of organization and management.”(9) As per the Kohler Cost accounting, ‘that branch of accounting dealing with the classification, recording, allocation, summarization and reporting of current and prospective costs. Hence cost accounting deals with cost control, reporting to management, analysis of financial accounting data and future cost planning. Cost accounts maintained and different techniques used for determination of the cost of products, service or an operation. It is defined as, ‘the establishment of budgets, standard costs and actual costs of operations, processes, activities or products and the analysis of variances, profitability or the social use of funds’.

1.8.4 Cost Accountancy:

Cost Accountancy is a broader and comprehensive term which includes various aspect such as cost, costing, cost accounting cost control, cost audit and budget and budgetary control. Cost accountancy is defined
as, “the application of costing and cost accounting principles, methods and techniques to the science and art and practice of cost control and the ascertainment of profitability as well as presentation of information for the purpose of managerial decision making.” If we are analyze the above meaning of cost accountancy, the following points will emerge,

i. Cost accountancy is basically application of the costing and cost accounting principles,

ii. Cost accountancy is the application with specific purpose and that is for the purpose of cost control, ascertainment of profitability and also for presentation of information to facilitate decision making,

iii. Cost accounting deals with the combination of art and science in accounting, it is a science as it has well defined rules and regulations and it is an art as application of any science requires art. Cost accounting is a practice as it has to be applied on continuous basis and it is not onetime exercise.

1.9 Methods of Costing:

It is necessary to understand the difference between the different costing methods. Costing methods are those which help a firm to compute the cost of production or services offered by it. On the other hand, costing techniques are those which help a firm to present the data in a particular manner so as to facilitate the decision making as well as cost control and
cost reduction. Costing methods and techniques are explained in detail given below.

1.9.1 Job Costing:

“This costing method is used in firms which work on the basis of job work. There are some manufacturing units which undertake job work and are called as job order units. The main feature of these organizations is that they produce according to the requirements and specifications of the consumers. Each job may be different from the other one.”(11) Production is only on specific order and there is no pre demand production. Because of this situation, it is necessary to compute the cost of each job and hence job costing system is used. In this system, each job is treated separately and a job cost sheet is prepared to find out the cost of the job. The job cost sheet helps to compute the cost of the job in a phased manner and finally arrives the total cost of production.

1.9.2 Batch Costing:

“This method of costing is used in those firms where production is made on continuous basis. Each unit coming out is uniform in all respects and production is made prior to the demand, i.e. in anticipation of demand.”(12) One batch of production consists of the units produced from the time Financial Accounting, Cost Accounting and Management Accounting machinery is set to the time when it will be shut down for maintenance. For example, if production commences on 1st January 2007
and the machine is shut down for maintenance on 1st April 2007, the number of units produced in this period will be the size of one batch. The total cost incurred during this period will be divided by the number of units produced and unit cost will be worked out. Firms producing consumer goods like television, air-conditioners, washing machines etc use batch costing.

1.9.3 Process Costing:

Some of the products like sugar, chemicals etc involve continuous production process and hence process costing method is used to work out the cost of production. “The meaning of continuous process is that the input introduced in the process I travels through continuous process before finished product is produced. The output of process I becomes input of process II and the output of process II becomes input of the process III. If there is no additional process, the output of process III will be the finished product. In process costing, cost per process is worked out and per unit cost is worked out by dividing the total cost by the number of units.”

Industries like sugar, edible oil, chemicals are examples of continuous production process and use process costing.

1.9.4 Operating Costing:

This type of costing method is used in service sector to work out the cost of services offered to the consumers. For example, operating costing method is used in hospitals, power generating units, transportation
sector etc. A cost sheet is prepared to compute the total cost and it is divided by cost units for working out per unit cost.

1.9.5 **Contract Costing:**

This method of costing is used in construction industry to work out the cost of contract undertaken. For example, cost of constructing a bridge, commercial complex, residential complex, highways etc is worked out by use of this method of costing. Contract costing is actually similar to job costing, the only difference being that in contract costing, one construction job may take several months or even years before they are complete while in job costing, each job may be of a short duration. In contract costing, as each contract may take a long period for completion, the question of computing of profit is to be solved with the help of a well defined and accepted method.

1.9.6 **Uniform Costing:**

“Uniform Costing may be defined as the application and use of the same costing principles and procedures by different Organizations under the same management or on a common understanding between members of an association.”\(^{(14)}\) It is thus not a separate technique or method. It simply denotes a situation in which a number of organizations may use the same costing principles in such a way as to produce costs which are of the maximum comparability. From such comparable costs valuable conclusions can be drawn. When the Uniform Costing is made use of by
the different concerns the same management it helps to indicate the strengths and/or weaknesses of those concerns. By studying the findings, appropriate corrective steps may be taken to improve the overall efficiency of the organizations. When used by the member concerns of a trade association Uniform Costing helps to reduce expenditure on a comparative marketing, to determine and follow a uniform pricing policy, to exchange information between the members for comprised and improvement and so on.

1.10 Techniques of Costing:

Costing methods are used for computation of the total cost of production or services offered by industries. On the other hand, costing techniques help to present the data in a particular format so that decision making becomes easy. Costing techniques also help for controlling and reducing the costs. The techniques of costing are given below.

1.10.1 Marginal Costing:

Marginal Costing is a costing technique to analyze the margin in the concern activity in to the business. It is basically used for find out the profitability in the business transaction. These techniques is effectively used for decision making in the areas like make or buy decisions, optimizing of product mix, key factor analysis, fixation of selling price, accepting or rejecting an export offer, and several other areas. “This technique is based on the assumption that the total cost of production can
be divided into fixed and variable. Fixed costs remain same irrespective of the changes in the volume of production while the variable costs vary with the level of production.”\(^{(15)}\) They will increase if the production increases and decrease if the production decreases. Variable cost per unit always remains the same. In this technique, only variable costs are taken into account while calculating production cost. Fixed costs are not absorbed in the production units. They are written off to the Costing Profit and Loss Account. The reason behind this is that the fixed costs are period costs and hence should not be absorbed in the production. Secondly they are variable on per unit basis and hence there is no equitable basis for charging them to the products.

1.10.2 Standard Costing:

Standard costs are predetermined costs relating to material, labor and overheads. Though they are predetermined, they are worked out on scientific basis by conducting technical analysis. They are computed for all elements of costs such as material, labor and overheads. “The main objective of fixation of standard cost is to have benchmark against which the actual performance can be compared.”\(^{(16)}\) This means that the actual costs are compared with the standards. The difference is called as ‘variance’. If actual costs are more than the standard, the variance is ‘adverse’ while if actual costs are less than the standard, the variance is ‘favorable’. The adverse variances are analyzed and reasons for the same
are found out. Favorable variances may also be analyzed to find out the reasons behind the same. Standard costing thus is an important technique for cost control and reduction.

1.10.3 **Budgets and Budgetary Control:**

Budget is defined as, ‘a quantitative or a monetary statement prepared to prior to a defined period of time for the policies during that period for the purpose of achieving a given objective.’ As per the definition, it will be clear that “a budget is a statement, which may be either in monetary form or quantitative form or both.”\(^{(17)}\) For example, a production budget can be prepared in quantitative form showing the target production, it can also be prepared in monetary terms showing the expected cost of production. Some budgets can be prepared only in monetary terms, e.g. cash budget showing the estimated receipts and payments in a particular period can be prepared in monetary terms only. Another feature of budget is that it is always prepared prior to a defined period of time which means that budget is always prepared for future and that took a defined future. For example, a budget may be prepared for next 12 months or 6 months or even for 1 month, but the time period must be certain and not vague. One of the important aspects of budgeting is that it lays down the objective to be achieved during the defined period of time and for achieving the objectives, whatever policies are to be pursued are reflected in the budget.
“Budgetary control involves preparation of budgets and continuous comparison of actual with budgets so that necessary corrective action can be taken.” *(18)* For example, when a production budget is prepared, the production targets are laid down in the same for a particular period. After the period is over, the actual production is compared with the budget and the deviation is found out so that necessary corrective action can be taken. Budget and Budgetary Control is one of the important techniques of costing used for cost control and also for performance evaluation. The success of the technique depends upon several factors such as support from top management, involvement of employees and coordination within the organization.

### 1.10.4 Cost Sheet:

Cost Sheet is a statement of cost showing the total cost of production, product, process and profit or loss from a particular manufacture or service industry. “A Cost Sheet shows the cost in a systematic manner and element wise. Total costs are segregated into elements like Prime Cost, Factory or Works Cost, Cost of Production, Cost of Sales and finally the profit/loss is worked out by comparing the total cost with the selling price.” *(19)* Appropriate adjustments are made for opening and closing stock of Work in Progress and also opening and closing stock of finished goods. The format of cost sheet may be suitably changed according to the requirements of each firm but the basic form
remains the same. This is statement showing future cost information of the product want to manufacture by management so it is helpful to managerial decisions.

1.10.5 Cost Control and Cost Reduction:

Cost reduction and Cost Control is one of the important functions of Cost Accounting through which cost accounting became a successful and have a different place and importance in the business management. “Cost control implies various actions taken in order to ensure that the cost do not rise beyond a particular level while cost reduction means reducing the existing cost of production.”(20) Both these concepts explain in detail below.

Cost Control: - As mentioned above, cost control means keeping the expenses within limits or control in the business organization. Following has the feature of cost control in the business organization.

- Cost control is a continuous process. It involves setting standards and budgets for deciding targets of different expenses and constant comparison of actual the budgeted and standards,
- Cost control involves creation of responsibilities center with clearly defined authorities and responsibilities,
- It also involves, timely cost control reports showing the variances between standard and actual performance,
Motivating and encouraging employees to accomplish budgetary goals is also one of the essential aspects of cost control.

Actually cost control not only means monetary limits on cost but it also involves optimum utilization of resources or performing the same job at same cost.

Cost Reduction: “Cost reduction means attempts to reduce the costs at optimum level as much as possible in the cost of product at different stage in the production.” For example, if the present costs are Rs. 1000 per unit, attempts can be made to reduce it to bring it down below Rs. 1000. For this purpose, costing take efforts with using proper costing techniques. The goal of cost reduction can be achieved in two ways,

First is reducing the cost per unit and the second one is increasing productivity. Reducing wastages, improving efficiency, searching for alternative materials, and a constant drive to reduce costs, can effect cost reduction. The following tools and techniques are normally used for cost reduction.

- Value analysis or value engineering,
- Setting standards for all elements of costs and constant comparison of actual with standard and analysis of variances,
- Work study,
- Job evaluation and merit rating,
• Quality control,

• Use of techniques like Economic Order Quantity,

• Classification and codification,

• Standardization and simplification,

• Inventory management,

• Benchmarking,

• Standardization,

• Business Process Re-engineering,

1.10.6 Cost Management:

The term ‘Cost Management’ has not been defined as such. However it can be said that cost management identifies, collects, measures, classifies and reports information that is useful to managers and other internal users in cost ascertainment, planning, controlling and decision making. Cost management aims to produce and provide information to internal users and personnel working in the organization.

Need for Cost Management: - “Effective management of cost makes an organization more strong, more stable and helps in improving the potentials of a business.”(22) The organization calls for a system that would monitor the full economic impact of the business, on resource acquisition and consumption. This provides supplying of information to the top management for exploring various alternatives by which cost
effectiveness can be improved. Cost management also helps in optimizing resources which will improve overall efficiency of the organization and help the firm to achieve its objectives.

1.11 Statement of the problem:

In order to survive for the long run, small scale enterprises ultimately must be able to show that it can make more money from a product or service than it cost to make that product or service.

Enterprises face the problems of, not be able to increase revenues at a consistent cost level. Enterprises not are able to reduce costs given consistent revenue levels. Enterprises not increase revenues at a rate faster than costs increase. Enterprises not decrease costs at a rate faster than revenues decrease. Costing is the expensive system hence not able to adaptable to small scale enterprises.

1.12 Objectives of the study:

Following are the main objectives of the research study.

i. To Study the historical development of costing systems in general and operational in small scale engineering tool industries,

ii. To Study of Costing Systems which is adapted in current working Small scale engineering tool industries,

iii. To study the importance of Costing System in growing business life of small scale engineering tool Industries,
iv. To evaluate the impact of different Costing Systems on the financial position of small scale engineering tool industries at different levels in business operation,

v. To analyze the financial positions of small scale engineering tool industries on the basis of costing techniques,

vi. To make an assessment of impact of Costing Systems on production and productivity and profit of small scale engineering tool industries,

1.13 Scope of the Study:

Present study will helpful to analyze the costing system either favorable or adverse in the process of solving the problems related to cost control and cost management in the small scale industries in Maharashtra. Many small scale industries work with different nature of work like process, job work, contract, batch etc. This study will helpful to the financially week small scale industries and the industries which are facing continues losses due to improper cost controlling and cost management and other reasons also. This study include the detail study of cost accounting systems adopted by the small scale industries, with affect of costing systems on financial position of the business.
1.14 Hypothesis Tested.

\[ H_1 \] Costing system adversely affect on Profitability of small scale engineering tool industries,

\[ H_0 \] Costing systems affect on the financial position of the industries in positive accounting manner.

1.15 Research Methodology:

In order to achieve the above objectives, both the types of data is used i.e. Primary and Secondary data. In the study analysis of the data is made by using Statistical software SPSS latest version was undertaken to draw inferences and arrive at suitable conclusions.

1.16 Collection of Data:

(a) Primary Data:

As far as primary data is collected by mailing, visiting and telephonic interview of the Cost Accountant, Accountants, Managers or Contact persons of Small Scale Industries of Maharashtra industrial area. 5321 Engineering industries tool industries in Maharashtra 10% that is 532 but since it is large and researcher is enable to cover alone the given sample, researcher has decided to take a representative sample of 245 small scale engineering industries in Maharashtra to deliberately by using Random sample lottery system. Personal interview with the help of pre-tested interview schedule, designed for this purpose. Based, personal
study and observation is done where necessarily applicable. A pilot survey is conducted on which basis the questionnaire and schedule are improved and corrected. Samples are selected by applying stratified sampling technique.

(b) Secondary Data:

Secondary data is collected from various sources which include Yearly Annual Reports published by the Finance Ministry, Government of India, Different Report and Annual Report by the Micro Small and Medium Industries Government of India, Reports Published by the District Industrial Corporation, Reference Books, Text Books, Journals, Article, Magazines, Periodicals, Research Works, News Papers and All the research related Web sites.

1.17 Selection of Samples:

In Maharashtra 5231 small scale engineering tool industries are registered till the year 2010-11. Out of that 245 small scale engineering tool industries are selected through Simple Random Sampling Method.

1.18 Limitations of the Study:

1. This study is limited to 245 small scale engineering tool industries in Maharashtra this study does not correspond to large businesses.
2. The research study is done by using a naturalistic approach in which the sampling is purposive. The intent of purposive sampling is to
maximize information. In such a study, there is no precise
generalization, although to some extent, this study may be transferable
to other similar settings.

3. Study area which includes industrial areas of Maharashtra State.

**1.19 Tools and Techniques used:**

Different type of Tables, pie charts, and structures are used in explanations to bring out the point more clearly. Therefore with this in mind, while presenting arguments in theory, diagrammatic; structural, graphic representation is sort. On some necessary cases exhibits are given to draw a made, calculation of percentages, ranks and means for comparison and variable measurement, chi-square are used. Tabulation of primary data is done. On the basis of these tables and trends, that indicate direction and disparity came out more visibly. Other techniques that are used include chi-square this is used to find out the relationships between variables and to test the hypotheses, chi-square is normally used to test whether there is any significant relationship between two variables for instance age and satisfaction. Simple average, percentages, maximum, minimum, are also employed, BEP, EOQ, Standard Costing, Marginal Costing, PV Ratio, Sales Ratio and variance Analysis.
1.20 Scheme of Chapters:

Following are the scheme of chapter, which are divided into five different chapters.

i. Introduction:

This Chapter includes the history and background of Small scale industries in India and Maharashtra. Nature, Structure, role and importance of small scale engineering industries in Indian economy also explained. This chapter shows overall picture of small scale industries in Maharashtra. Meaning of costing, objectives of cost accounting, types of accounting, and methods of cost accounting and technique of cost accounting are also explained. This topic is trying to focus on the importance of costing system in the different problems areas in business life of small scale industries.

ii. Review of Literature:

This chapter included ten different Ph.D thesis from different universities related to the small scale industries and costing systems for the purpose of review of other researchers. Ten reputed books included in the review to know how the actual implementation of cost accounting in small scale industries. Twenty articles also included on the concerned ph.d topic to consider the different views and thoughts of different authors and researchers in related to research aria. Review of Annual and Periodical
Reports by MSME published by Finance Ministry of India are also included in this topic that gives the complete data about the complete statistical position of small and medium scale industries in India and different area of India. This topic are provided past and current experience in related the current research area.

iii. Progress of small scale industries in Maharashtra

This chapter includes the industrial growth of small scale engineering industries in Maharashtra in the period between 2000-2001 to 2010-2011. This is important to know the position of small scale engineering industries in different manner such as number unites increased in research period and number of employment increased in the research period. Growth of small scale industries district wise in Maharashtra also included in this chapter.

iv. Impact of Costing Systems on Small Scale Engineering Industry:

This chapter deals with the classification of data and analyzes the data as per research objectives. Well established costing system support to minimize wastage of all direct and indirect resources and to take timely decisions. While testing, Hypothesis are tested by using chi-quire and z-quire statistical technique and found out the truth in the research study.
v. **Summary, Conclusions and Suggestions:**

This is the last chapter of the research study which includes summary of the all research work done on the basis of collected data, that includes background of small scale industries in India and Maharashtra, development and progress of small scale industries in Maharashtra. Conclusion included many things which are actually found on the basis of all analysis of the data and resulted information.

A research finding includes:

a. It is found in research that many small scale engineering industries do not maintain separate costing department.

b. Many small scale engineering industries are not aware about different accounting software are available in the market to analyze, classify and summarize the accounting data.

c. Those industries using costing, their operating performance is appreciable compared to industries which do not use costing.

d. All the resources are used optimally by cost accounting existing industries.

e. Overall financial performance of costing using industries is good.

Suggestion includes:

a. Small Scale Industries must establish separate costing department so various costs will be controlled effectively.
b. Those small scale industry comes under purview of govt. regulations about installation of Cost Accounting shall strictly follow the guidelines.

c. Institute of Cost and Works Accountants of India shall make awareness about costing guidelines published by govt. so it to be used at widespread.

d. UGC strictly shall provide and implement certain measure to have a special subject as cost accounting at all university level.
Conclusion:

This chapter includes the overview of the small scale industries in different countries as well as in India from the industrialization in the world. Changes in different aspect of small scale industries in last sixty years are studied and tried to know how the current situation of the small scale industries in India and other nations. That also shows that the importance is given by each country to development of small scale industries in the development of overall by the nation. Most of the countries has been made special planning and rules for the purpose of development of small scale industries because they all are strongly believes in success of economy is mostly depend on the balanced development of the region and that can be only possible through the successful development in the small scale industry sector. Exact meaning of small scale industries in other countries and in India, role of small scale industries in Indian economy and problems ahead the small scale industries had studied. As per the point of view of this research this topic also studied evolution of cost accounting, objectives of cost accounting and different costing terms like cost, costing, cost accounting, and cost accountancy. Job Costing, Batch costing, process costing, operating costing, contract costing, and uniform costing these are the different costing methods has been studied for the purpose of to know how the
costing system has different cost accounting methods for different type of business nature enterprises. In this study different techniques of cost accounting has been studied which are very useful to the small scale industries in the process of solving many issues in relation to cost control and cost management, which are very necessary to accounting data analysis and problem solving to management and taking necessary action for future required necessary action of the small scale industries. Costing techniques are the strong tool of cost accounting to controlling the different cost and to management of different cost of product at different stage of manufacturing or production of the product. Costing techniques included marginal costing, standard costing, budget and budgetary control, cost sheet, cost control and cost reduction, and cost management. Small scale industries have different option in the costing system to use the suitable and appropriate costing technique as per their requirement to solve their cost related issues. This topic defines the study of co-relevance among the small scale industries functioning with cost accounting. The main conclusion of this topic is that cost accounting has different cost accounting methods and different cost accounting techniques to solving the financial problem of small scale engineering industries.
References:


2. The Industries Development and Regulation Act, 1951 (Act No. 65 of 1951) published by Government of India, Page No.3.


12. Ibid,

13. Ibid,

14. Ibid,


