

Cost control of iron and Steel Metallurgical Industry

Steel industry and cost control

Production cost is a fundamental indicator of organizational performance. It determines how effectively an organization works. It has a very strong impact on the profitability and bottom line of the organization.

Control is an activity that verifies that established objectives are being achieved as planned. Control activities are carried out by monitoring and analyzing data related to activities. The monitoring and analysis of data indicates whether facts or events have occurred as specified in advance by those responsible. Monitoring and analysis activities also identify deviations between what is proposed to be achieved and what has been achieved, and determine the causes of the deviations so that those responsible for the activity can take appropriate decisions to take corrective measures to eliminate them. This helps to prevent greater deviations from occurring in the future if corrective measures are not taken in a timely manner. In other words, through control, negative factors are identified so that they can be gradually eliminated to ensure the healthy continuation of the activity.

Cost control in an organization is accomplished by conducting a cost analysis, which identifies opportunities for improving the parameters of the production process and the product (design and quality). The cost control process in the organization (Figure 1) represents all decisions made regularly by providing analytical data to managers and other cost owners. Data about deviations are determined by comparing actual costs (realized) and

planned costs (standard) with the aim of taking some corrective actions through appropriate decisions of management in order to control the production costs of the product. Cost control is part of the administrative control exercised by the organization's management to manage the organization.

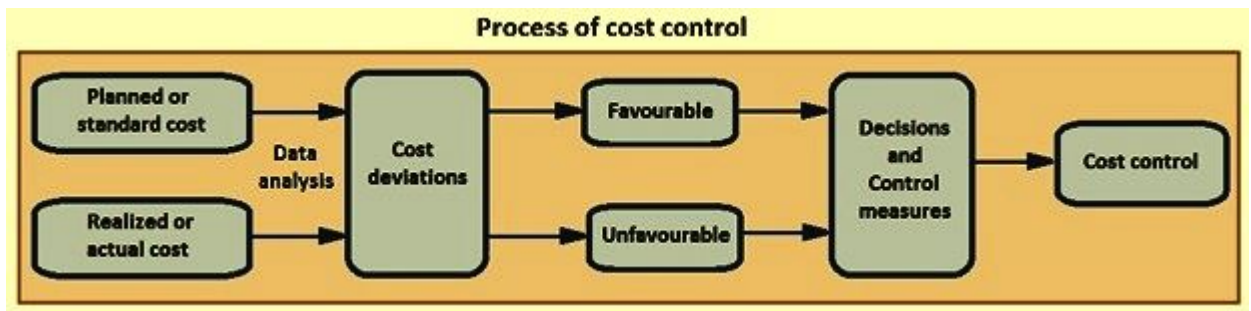


Figure 1 The process of cost control

The process of cost control is carried out by preparing a cost sheet. Detailed cost sheets and cost variance analysis are prepared for each operational step in the production of marketable products. Cost sheets are prepared on a scientific basis, so they accurately reflect areas where corrective action is needed to effectively control costs. Cost sheets are usually prepared on a regular basis, for example, monthly based on data from the previous month. Annual cost sheets are prepared based on annual data. Standard cost parameters are usually those on which the monthly/annual budget is based. Figure 2 shows the cost variance analysis model.

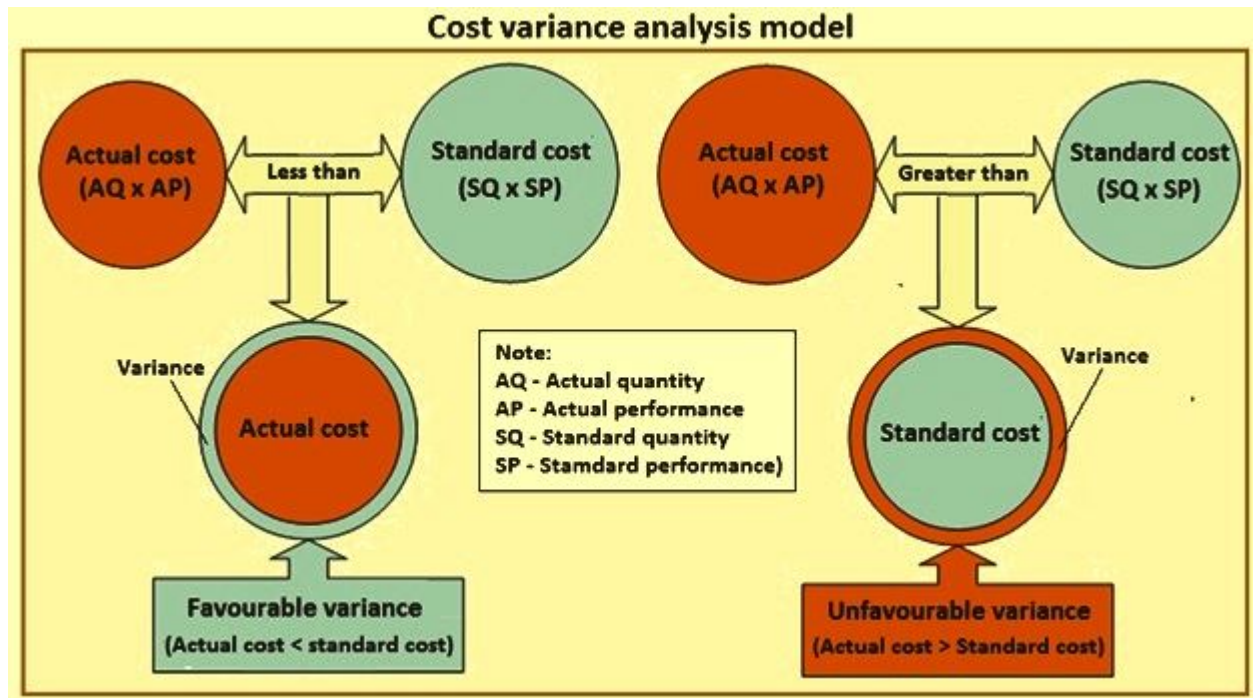


Figure 2 Cost variance analysis model

The two components of production costs are (i) variable costs, and (ii) fixed costs. Variable costs are those costs that vary according to the volume of production. These costs rise as production volume increases and fall as production volume decreases. Variable costs are different from fixed costs, which remain constant regardless of production volume.

The main components of variable costs are (i) raw material costs (primary and auxiliary materials), (ii) energy costs (fuel and electricity), (iii) utility costs (industrial gases, water and compressed air, etc.), and (iv) maintenance costs (spare parts, consumables such as lubricants, grease, etc.). (v) cost of refractory materials, (vi) cost of operational modifiable factors (rolls, guides, shear blades, etc.), (vii) labor costs (conventional and contractual), and (viii) operational management costs. The components of fixed costs are (i) depreciation, (ii) interest on fixed capital, (iii) interest on working capital, and (iv) organizational overhead.

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