

## **PAPER – 3: COST AND MANAGEMENT ACCOUNTING**

(One Paper- Three hours- 100 Marks)

### **Objectives:**

- (a) To develop an understanding of the basic concepts and applications to establish the cost associated with the production of products and provision of services and apply the same to determine prices.
- (b) To develop an understanding of cost accounting statements.
- (c) To acquire the ability to apply information for cost ascertainment, planning, control and decision making.

### **Contents:**

#### **1. Overview of Cost and Management Accounting**

##### **(i) Introduction to Cost and Management Accounting**

- a) Objectives and Scope of Cost and Management Accounting,
- b) The users of Cost and Management accounting information, Functions of management accounting.
- c) Role of cost accounting department in an organisation and its relation with other departments.
- d) Installation of Costing System
- e) Relationship of Cost Accounting, Financial Accounting, Management Accounting and Financial Management.
- f) Cost terms and Concepts
- g) Cost Reduction and Cost Control
- h) Elements of Costs
- i) Cost behavior pattern, Separating the components of fixed, variable, semi-variable and step costs.
- j) Methods of Costing, Techniques of Costing.
- k) Cost Accounting with use of Information Technology.

##### **(ii) Elements of Cost and preparation of Cost Sheets**

- a) Functional classification and ascertainment of cost

- b) Preparation of Cost Sheets for Manufacturing sector and for Service sector

## **2. Ascertainment of Cost and Cost Accounting System**

### **(i) Material Cost**

- a) Procurement procedures- Store procedures and documentation in respect of receipts and issue of stock, Stock verification,
- b) Valuation of material receipts,
- c) Inventory control-
  - Techniques of fixing level of stocks- minimum, maximum, re-order point, safety stock, determination of optimum stock level,
  - Determination of Optimum Order quantity- Economic Order Quantity (EOQ),
  - Techniques of Inventory control- ABC Analysis, Fast, Slow moving and Non moving (FSN), High, Medium, Low (HML), Vital, Essential, Desirable (VED), Just-in-Time (JIT)- Stock taking and perpetual inventory system, use of control ratios,
- d) Inventory Accounting

### **(ii) Employee Cost**

- a) Attendance and Payroll procedures-
  - Elements of wages- Basic pay, Dearness Allowance, Overtime, Bonus, Holiday and leave wages, Allowances and perquisites.
- b) Employee Cost Control
- c) Employee Turnover- Methods of calculating employee turnover, causes of employee turnover, effects of employee turnover.
- d) Utilisation of Human Resource, Direct and indirect employee Cost, charging of employee cost, Identifying employee hours with work orders or batches or capital jobs.
- e) Remuneration systems and incentive schemes- Premium Bonus Method (Halsey Plan and Rowan Plan)

### **(iii) Overheads**

- a) Functional analysis- Factory, Administration, Selling, Distribution, Research and Development.
- b) Behavioral analysis- Fixed, Variable and Semi- Variable.
- c) Allocation and Apportionment of overheads using Absorption Costing Method.

- d) Factory Overheads- Primary and secondary distribution,
- e) Administration Overheads- Method of allocation to cost centres or products,
- f) Selling & Distribution Overheads- Analysis and absorption of the expenses in products/ customers, impact of marketing strategies, cost effectiveness of various methods of sales promotion.
- g) Treatment of Research and development cost in cost accounting.

**(iv) Concepts of Activity Based Costing (ABC)**

**(v) Recording and Accounting of Costs**

- a) Non-integrated Cost Accounting system- Ledger under non-integral system
- b) Integrated (Cost and Financial) Accounting system- Ledgers under integral system.
- c) Difference between the Non- integrated and Integrated Accounting system.
- d) Reconciliation of profit as per Cost and Financial Accounts (under Non-Integrated Accounting System).

**3. Methods of Costing**

**(i) Single Output/ Unit Costing**

**(ii) Job Costing:** Job cost cards and databases, collecting direct costs of each job, attributing overheads to jobs, Application of job costing.

**(iii) Batch Costing:** Determination of optimum batch quantity, Ascertainment of cost for a batch, Preparation of batch cost sheet, Treatment of spoiled and defective work.

**(iv) Contract Costing**

- a) Ascertainment of cost of a contract, Progress payment, Retention money, Escalation clause, Cost plus contract, Value of work certified, Cost of Work not certified.
- b) Determination Value of work certified, Cost of work not certified, Notional or Estimated profit from a contact.

**(v) Process/ Operation Costing**

- a) Process cost recording, Process loss, Abnormal gains and losses, Equivalent units of production, Inter-process profit, Valuation of work in process.
- b) Joint Products- Apportionment of joint costs, Methods of apportioning joint cost over joint products,

- c) By-Products- Methods of apportioning joint costs over by-products, treatment of By-product cost.

**(vi) Costing of Service Sectors**

- a) Determination of Costs and Prices of services.

**4. Cost Control and Analysis**

**(i) Standard Costing**

- a) Setting up of Standards, Types of Standards, Standard Costing as method of performance measurement.
- b) Calculation and Reconciliation of Cost Variances-
  - Material Cost Variance, employee Cost Variance, Variable Overheads Variance and Fixed Overhead Variance.

**(ii) Marginal Costing**

- a) Basic concepts of marginal costing, Contribution margin, Break-even analysis, Break –even and profit volume charts, Contribution to sales ratio, Margin of Safety, Angle of Incidence, Cost-Volume-Profit Analysis (CVP), Multi- product break- even analysis, Consideration of Limiting factor (key factor),
- b) Determination of Cost of a product/ service under marginal costing method, determination of cost of finished goods, work-in-progress,
- c) Comparison of Marginal costing with absorption costing method- Reconciliation of profit under the both methods,
- d) Short term decision making using the above concepts (basic / fundamental level).

**(iii) Budget and Budgetary Control**

- a) Meaning of Budget, Essentials of Budget, Budget Manual, Budget setting process, Preparation of Budget and monitoring procedures.
- b) The use of budget in planning and control
- c) Flexible budget, Preparation of Functional budget for operating and non-operating functions, Cash budget, Master budget,
- d) Introduction to Principal/ Key budget factor, Zero Based Budgeting (ZBB), Performance budget, Control ratios and Budget variances.