

SYLLABUS

PAPER – 4: 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.
- (d) To apply costing methods to determine the costs for different purposes.
- (e) To apply appropriate techniques to support short term decisions.

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) Digital Costing.

(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) Introduction to procurement procedures. Valuation of receipts, issue and closing stock of Material, Stock verification.
- (b) Material requirement analysis through digital costing including Government e-Marketplace (GeM). Introduction to Costing through Enterprise Resource Planning (ERP). Process of tender and quotation.
- (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 inventory control ratios, Digital Inventory control
- (d) Treatment of Normal/Abnormal Losses w.r.t. waste, scrap, spoilage, defective, obsolescence.

(ii) Employee Cost

- (a) Introduction to Attendance and Payroll procedures
- (b) Elements of wages- Basic pay, Dearness Allowance, Overtime, Bonus, Holiday and leave wages, Allowances and perquisites.
- (c) Employee Cost Control
- (d) Employee Turnover- Methods of calculating employee turnover, causes of employee turnover, effects of employee turnover.
- (e) Remuneration systems and incentive schemes- Premium Bonus Method (Halsey Plan and Rowan Plan)

(iii) Direct Expenses

Identification of direct expenses with the main product or service and its treatment.

(iv) 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.

(v) Concepts of Activity Based Costing (ABC)**(vi) Integration of cost and financial data**

- (a) Recording of financial data and its segregation.
- (b) Introduction to Non- integrated and Integrated Accounting system.

- (c) Items included in cost accounts only but financial accounts and vice versa.
- (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) **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.

(v) **Costing of Service Sectors**

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 Material Cost, Labour cost, Variable Overhead, Fixed Overhead

(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),

- (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 both the methods,
- (d) Short term decision making -
 - Make or buy decision
 - Discontinuation decision
 - Multiproduct break-even analysis
 - Limiting factor (key factor)

(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.
- (e) Budgets and motivation
- (f) Feedback and Feedforward controlling in budgeting.