

## **PAPER – 4: COST AND MANAGEMENT ACCOUNTING (100 MARKS)**

### **Objective**

- (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	Section	Weightage
<b>1. Overview of Cost and Management Accounting</b>	<b>I</b>	<b>10%-15%</b>
<b>(i) Introduction to Cost and Management Accounting</b>		
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		

<p>Accounting, Management Accounting and Financial Management.</p> <p>f) Cost terms and Concepts</p> <p>g) Cost Reduction and Cost Control</p> <p>h) Elements of Costs</p> <p>i) Cost behavior pattern, Separating the components of fixed, variable, semi-variable and step costs.</p> <p>j) Methods of Costing, Techniques of Costing.</p> <p>k) Digital Costing.</p>		
<p><b>(ii) Elements of Cost and preparation of Cost Sheets</b></p> <p>a) Functional classification and ascertainment of cost</p> <p>b) Preparation of Cost Sheets for Manufacturing sector and for Service sector</p>		
<p><b>2. Ascertainment of Cost and Cost Accounting System</b></p>		
<p><b>(i) Material Cost</b></p> <p>a) Introduction to procurement procedures. Valuation of receipts, issue and closing stock of Material, Stock verification.</p> <p>b) Material requirement analysis through digital costing including Government e-Marketplace (GeM). Introduction to Costing through Enterprise Resource Planning (ERP). Process of tender and</p>	<p><b>II</b></p>	<p><b>35%-40%</b></p>

	<p>quotation.</p> <p>c) Inventory control-</p> <ul style="list-style-type: none"> <li>- Techniques of fixing level of stocks- minimum, maximum, re-order point, safety stock, determination of optimum stock level,</li> <li>- Determination of Optimum Order quantity- Economic Order Quantity (EOQ),</li> <li>- 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</li> </ul> <p>d) Treatment of Normal/Abnormal Losses w.r.t. waste, scrap, spoilage, defective, obsolescence.</p>		
<p><b>(ii) Employee Cost</b></p>	<p>a) Introduction to Attendance and Payroll procedures</p> <p>b) Elements of wages- Basic</p>		

	<p>pay, Dearness Allowance, Overtime, Bonus, Holiday and leave wages, Allowances and perquisites.</p> <p>c) Employee Cost Control</p> <p>d) Employee Turnover- Methods of calculating employee turnover, causes of employee turnover, effects of employee turnover.</p> <p>e) Remuneration systems and incentive schemes- Premium Bonus Method (Halsey Plan and Rowan Plan)</p>		
	<p><b>(iii) Direct Expenses</b></p> <p>Identification of direct expenses with the main product or service and its treatment.</p>		
	<p><b>(iv) Overheads</b></p> <p>a) Functional analysis- Factory, Administration, Selling, Distribution, Research and Development.</p> <p>b) Behavioral analysis- Fixed, Variable and Semi- Variable.</p> <p>c) Allocation and Apportionment of overheads using Absorption Costing Method.</p> <p>d) Factory Overheads- Primary and secondary distribution,</p> <p>e) Administration Overheads- Method of allocation to cost centres or products,</p>		

<p>f) Selling &amp; Distribution Overheads- Analysis and absorption of the expenses in products/ customers, impact of marketing strategies, cost effectiveness of various methods of sales promotion.</p> <p>g) Treatment of Research and development cost in cost accounting.</p>		
<p><b>(v) Concepts of Activity Based Costing (ABC)</b></p>		
<p><b>(vi) Integration of cost and financial data</b></p> <p>a) Recording of financial data and its segregation.</p> <p>b) Introduction to Non-integrated and Integrated Accounting system.</p> <p>c) Items included in cost accounts only but financial accounts and vice versa.</p> <p>d) Reconciliation of profit as per Cost and Financial Accounts (under Non-Integrated Accounting System).</p>		
<p><b>3. Methods of Costing</b></p>		
<p><b>(i) Single Output/ Unit Costing</b></p>		
<p><b>(ii) Job Costing</b></p> <p><b>Job</b> cost cards and databases, collecting direct costs of each job, attributing overheads to jobs, Application of job costing.</p>	<p><b>III</b></p>	<p><b>20%-25%</b></p>

<p><b>(iii) Batch Costing</b> Determination of optimum batch quantity, Ascertainment of cost for a batch, Preparation of batch cost sheet, Treatment of spoiled and defective work.</p>		
<p><b>(iv) Process/ Operation Costing</b></p> <p>a) Process cost recording, Process loss, Abnormal gains and losses, Equivalent units of production, Inter-process profit, Valuation of work in process.</p> <p>b) Joint Products- Apportionment of joint costs, Methods of apportioning joint cost over joint products,</p> <p>c) By-Products- Methods of apportioning joint costs over by-products, treatment of By-product cost.</p>		
<p><b>(v) Costing of Service Sectors</b> Determination of Costs and Prices of services</p>		
<p><b>4. Cost Control and Analysis</b></p>		
<p><b>(i) Standard Costing</b></p> <p>a) Setting up of Standards, Types of Standards, Standard Costing as method of performance measurement.</p> <p>b) Calculation and Reconciliation of Material Cost, Labour cost, Variable Overhead, Fixed Overhead</p>	<p><b>IV</b></p>	<p><b>25%-30%</b></p>

<p><b>(ii) Marginal Costing</b></p> <p>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),</p> <p>b) Determination of Cost of a product/ service under marginal costing method, determination of cost of finished goods, work-in-progress,</p> <p>c) Comparison of Marginal costing with absorption costing method-Reconciliation of profit under both the methods,</p> <p>d) Short term decision making -</p> <ul style="list-style-type: none"> <li>• Make or buy decision</li> <li>• Discontinuation decision</li> <li>• Multiproduct break-even analysis</li> <li>• Limiting factor (key factor)</li> </ul>		
<p><b>(iii) Budget and Budgetary Control</b></p> <p>a) Meaning of Budget, Essentials of Budget, Budget Manual, Budget setting process, Preparation of Budget and monitoring procedures.</p>		

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.		