

Cost & Management Accounting

►► BBS SECOND YEAR

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B U D D H A



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PREFACE

Cost and Management Accounting is a unique course offered by Tribhuvan University. It is a part of the BBS curriculum, which effectively prepares today's students for a career in cost accounting and management accounting which is becoming necessary in each and every business organization. This book endeavours to provide a complete reading material for the said course, not only as a reference book but also as a textbook for day-to-day use in the classroom. This book may also provide a very fulfilling experience, opportunity and understanding of the diverse areas encompassing the realm of financial analysis and planning practicing analysts and enthusiasts.

We have undertaken the project of writing this book as a team because we firmly believe that a single person hardly possesses enough mastery over all areas of cost and management accounting to do justice to the subject in every respect. Hence, this book has opened up a wonderful avenue for writing books in a team with a view to providing the depth and length in the subject matter, which is the need of the hour. Most of the books available in the market in the area are based on computational aspect rather than dealing with the subject matter in a comprehensive manner; providing the necessary theoretical underpinnings, real life situations, project work, warm up activities and exercise to test the understanding with computational expertise, and problems that sufficiently challenge a student to bring out the best in him/her. The need to reshape the way accounting is taught or studied has been widely felt in the country. The number of students taking up accounting majors is sliding and they are no longer intrigued by the way accounting is taught at the schools and colleges.

The pedagogical aspects of the book are, in many ways, the first of their kind in Nepal. The following are the major pedagogical aspects of the book:

CASE-IN-POINT Every chapter in the book begins with a case-in-point which opens the window to the chapter content being discussed. It is done to help students integrate their learning to what is actually happening in the real world. The theoretical aspects discussed in the chapter are illustrated by the issues raised in the case-in-point. There have been many situations that a student needs to re-learn everything he/she has learned in the college in a new perspective – the perspective of a practitioner. The book intends to minimise the task of re-learning to emphasizing so that they are able to sufficiently co-relate the theory with the practice. In fact, our endeavour is to enhance the transition from text-book theory to real life learning.

WARM UP ACTIVITIES Every chapter in the book begins with a warm up activities after case in point which opens the window to the chapter content being discussed. The warm up activities helps for the discussion of practical business activities and check the knowledge of the students about the existing scenario of the organization. It is beneficial to the students integrate their learning to what is actually happening in the real world. The book intends to minimise the task of re-learning to emphasizing so that they are able to sufficiently co-relate the theory with the practice. In fact, our endeavour is to enhance the transition from text-book theory to real life learning.

THINGS TO REMEMBER (TTR) Important concepts have been reviewed and emphasised in boxes entitled TTR. These boxes have been extensively used not only to quickly overview the main points learned in a particular section but also to provide additional information about the various issues including the latest developments in the area. TTRs have also been used to resolve various disputes regarding methods so that students are not over-burdened with diverse and conflicting views.

LIST OF KEY TERMS A list of key terms, newly introduced or simply emphasised, in every chapter has been provided for a quick review and linking purposes. Usually it becomes very easy to remember the concepts and theories - which are difficult in themselves to remember – when they are linked to the key terms. The list also will help the students to answer the “definition” type questions asked in examinations.

THEORETICAL QUESTIONS Although the emphasis of TU examination-questions lies more on computational side there is ample evidence that questions seeking to test theoretical knowledge have featured frequently. This section aims to equip the students to better understand the theoretical questions and to answer them appropriately. It also provides a foundation for further study and research.

BRIEF QUESTIONS These are exercises that can be used by the teachers to demonstrate the effect of important concepts without overburdening them to read and decipher a long question to effectively drive home an important concept. These small but challenging questions, which are directed at cracking the conceptual knots, can be extremely useful for board examination.

SHORT QUESTIONS Short questions makes the students face different problems which actually needed to solve with complete information. Such types of questions are useful to understand analytical questions as well as very much important in the view point of board examination. Since the major portion of weight in board examination has been given to descriptive questions.

LONG QUESTIONS Solving of the problems is often considered a very routine and monotonous job in accountancy but we have tried our best to break such a stereotypical situation by including problems which amply contain analytical and interpretive values. Our concern has been to involve the students directly in the learning process and we have taken every care to challenge them to be able to solve the problems in their own way and in what may be more relevant ways than ours. This type of questions makes the students to be able to analyze the real financial figure of company.

Authors

SYLLABUS

Cost and Management Accounting

Lecture Hours: 150

COURSE CONTENT:

Unit 1: Conceptual Foundation

15 LHs

Cost accounting and cost accountancy; Meaning, objectives, importance, scope, advantages and limitations of cost and management accounting; Limitations of financial accounting; Similarities and dissimilarities in financial, cost and management accounting
Concept, importance and classification of cost: basic concept of cost, expense, loss cost center, profit center and cost unit, cost classification: based on function, identification, behavior, controllability, decision making, time of recording, monetary expression, planning and control, period and product cost;

Cost segregation and estimation: concept and methods of cost segregation: i) Two point method ii) Least square method and iii) Estimation of cost

Unit 2: Accounting for Materials

12 LHs

Materials/Inventory: Concept, reasons and objectives for holding material/inventory. Inventory control: Meaning, importance and techniques; Economic order quantity: concept, techniques, formula, graphic and trial & error approaches-considering discount under certainty condition; Re-order, maximum, minimum, average stock levels, danger level and safety stock; Concept and techniques of perpetual inventory system; Stock control through ABC analysis and just in time inventory: concept, advantages and limitations; Material productivity and Inventory or material turnover.

Unit 3: Accounting for Labour Cost

15 LHs

Labour Cost: Concept and need for control of labour cost; Remuneration without premium plan: Features of good remuneration system, time and piece wage system; Remuneration with premium Plan: Features of premium plan, premium bonus scheme-Halsey and Rowan Plan, Taylor's Differential Piece Rate, Gant's Task and Bonus Plan, Group Bonus Scheme: Priestman's and Scalton's Plan

Labour Turnover: Concept, causes and effects, cost of labour turnover: preventive and replacement cost and calculations, labour turnover ratios.

Unit 4: Accounting for Overhead Cost

8 LHs

Overhead Cost: Meaning, features, importance and classification; Allocation, apportionment and absorption of overhead: meaning and importance; Apportionment and absorption of overhead cost based on volume, direct labour hours and machine hours; Concept, importance, features, elements of Activity Based Costing, ABC vs Traditional Costing, procedures of absorption of overhead cost under ABC technique.

Service Costing: Concept, features and scope of service costing; Preparation of cost sheet for transport service for passenger, hospital, hotel and restaurant services, limitations of service costing.

Job Order Costing: Concept and features; measuring direct material, direct labour and manufacturing overhead cost; Accounting for job order: Preparation of job order cost sheet showing non-manufacturing costs & determination of cost of goods manufactured, cost of goods sold and unit cost.

Batch Costing: Concept and features; Determination of Economic Batch Quantity (EBQ).

Contract Costing: Concept and features; Similarities and dissimilarities in job and contract costing; Contract costing procedures: preparation of contract account in the case of incomplete, near to completion and complete contract, work certified and work uncertified, contractee's account, work in progress account and balance sheet; Cost plus contract; Escalation and de-escalation clauses.

Process Costing: Concept, features and application; comparison of job costing and process costing; preparation of process accounts with/without beginning and ending work-in-progress inventory, partial and total transfer of output to next process, accounting for process loss/gain: normal and abnormal loss, abnormal effective/gain and computation of unit costs, and treatment of spoilage, wastage, scrap and defective unit; accounting for inter process profit, reserve for unrealized profit.

Joint Product and By Product Costing: Concept, features and objectives of joint and by-product, difference between joint product, main product and by-product; Apportionment of joint costs under unit of output and revenue basis; Accounting for joint and by-products.

Unit 6: Accounting for Profit Planning**20 LHs**

Absorption Costing: Concept, features, importance and preparation of income statement under absorption costing, treatment of normal capacity and fixed manufacturing overhead rate, treatment of opening and closing stock, over and under absorption of fixed manufacturing overhead and adjustment and limitations of absorption costing.

Variable Costing: Concept, features, use and importance preparation of income statement under variable costing, treatment of manufacturing overheads, treatment of opening and closing stock limitations and treatment of other expenses; limitations of variable costing.

Reconciliation of profit or loss between absorption and variable costing techniques showing the causes of differences.

Cost Volume Profit Analysis: Meaning, importance; assumptions and limitations of CVP analysis; Contribution margin and ratio, profit volume ratio; Break even analysis using contribution margin, algebraic and graphic approaches; Break-even-analysis: under various situations situations: changes on selling price, fixed cost, variable cost, under step fixed cost, multi-products situations, margin of safety and determination of selling price to realize desired profit ; Advantages and limitations of break even analysis.

Unit 7: Cost Accounting for Planning and Control**30 LHs**

Standard Costing: Concept of standard cost and standard costing, features, application, advantages and limitations; Difference between standard and budget.

Variance Analysis; Material variances: Concept and calculation of cost, price, usage, mix and yield variances; Labour variances: Concept and calculation of cost, efficiency, rate, mix, idle time and yield variances.

Overhead Cost Variance: Concept and calculation of capacity, efficiency and spending variances.

Budget: concept, features and importance of budget; budget and budgetary control; Types of budget: sales budget, production budget, material budget & merchandize purchase budget, labour budget, manufacturing overhead budget, cost of goods manufactured budget, selling/distribution & administrative expenses budget and cost of goods sold budget.

Fixed and Flexible Budgeting: Concept and importance of fixed and flexible budgets; Difference between fixed and flexible budgets; Flexible budgeting for overhead cost control on activity levels and budget allowance for actual level attained.

Unit 8: Cost Reduction

8 LHs

Cost Reduction and Cost Control: Cost reduction-pre-requisites, techniques, steps, responsibility and limitations; Value engineering (analysis): Concept, advantages, tools and techniques for cost reduction; Value analysis: Concept, objectives, importance, advantages and techniques of value analysis.

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