

# FAR WESTERN UNIVERSITY

## Faculty of Management

Course Title: **Cost and Management accounting**

Course Code: **MGT 362**

Nature of course: Theory

Semester: Sixth

Level: BBA

Total Marks: 100

Pass Marks: 45

Time per period: 1 hr.

Total periods: 45

Credit hours: 3

### 1. Course Introduction

The course aims to provide the student with an understanding of concept, tools and techniques of cost and management accounting together with applying the management accounting tools and techniques for planning, controlling and decision making and to develop the Student's capacity to analyze the financial and cost report for the managerial perspective.

### 2. Course objective:

To develop an understanding of cost classification, allocation and how the costing techniques are useful in the process of managerial decision-making this course sets the following objectives:

- Explain the nature and purpose of cost and management accounting
- Describe costs by classification
- Perform cost accounting functions using the various costing methods.
- Use management accounting techniques to make and support decision-making.
- Advise Management on business decisions based on cost and management accounting concepts.

### 3. Contents in detail

Learning Objectives	Units and contents
1. Understand the concept of Financial Accounting, Cost Accounting and Management Accounting.	<b>UNIT- I: Conceptual Foundation (2)</b> 1.1 Concept and Limitations of Financial Accounting 1.2 Concept , Objectives and Scope of Cost Accounting 1.3 Limitations of Cost Accounting 1.4 Concept, Functions and Scope of Management Accounting 1.5 Limitations of Management Accounting 1.6 Relationship between Cost accounting, Management Accounting, and Financial Accounting 1.7 Management Accounting as a Career.
2. Understand the objectives, scope and importance of cost accounting and management accounting.	
3. Describe the relationship of cost accounting to financial and management accounting.	

<ol style="list-style-type: none"> <li>1. Acquaint student to define and illustrate cost and cost objects</li> <li>2. Explain why it is necessary to distinguish cost in different way</li> <li>3. Understand the high- low method and method of least square of cost segregation.</li> <li>4. Estimate of cost for different level of activity</li> </ol>	<p><b>UNIT- II: COST TERMS AND CONCEPTS (2)</b></p> <ol style="list-style-type: none"> <li>3.1 Cost Objects and Cost Terminology</li> <li>3.2 Classification of Cost: <ol style="list-style-type: none"> <li>2.2.1. On the basis of Function</li> <li>2.2.2. On the basis of Elements of Cost</li> <li>2.2.3. On the basis of Cost Centre</li> <li>2.2.4. On the basis of Cost Behavior</li> <li>2.2.5. On the basis of Managerial Decision Making</li> <li>2.2.6. On the basis of Controllability</li> </ol> </li> <li>2.3 Cost Segregation and Cost Estimation</li> </ol>
<ol style="list-style-type: none"> <li>1. Acquaint student to apply inventory management techniques for decision making.</li> <li>2. Determine different inventory levels</li> <li>3. Determine the economic-order quantity (EOQ) using algebraic, diagrammatic and trial and error method</li> <li>4. Describe different methods used in inventory control</li> </ol>	<p><b>UNIT III: ACCOUNTING FOR INVENTORY MANAGEMENT (4)</b></p> <ol style="list-style-type: none"> <li>3.1. Concept of Inventory Management</li> <li>3.2. Objectives of Holding Inventory</li> <li>3.3. Reorder Level</li> <li>3.4. Economic Order Quantity</li> <li>3.5. Inventory Control. <ol style="list-style-type: none"> <li>3.5.1. Control of Stocks through Classification</li> <li>3.5.2. Just-in-Time Systems</li> <li>3.5.3. Stock Control through ABC Analysis</li> <li>3.5.4. Perpetual Inventory System</li> <li>3.5.5. Two Bin Card</li> </ol> </li> </ol>
<ol style="list-style-type: none"> <li>1. Acquaint student to understand the concept of labour</li> <li>2. Distinguish between the features of time rate and piece-rate plans.</li> <li>3. Calculate the remuneration under non incentive and incentive wage plans (Halsey, Rowan, Taylor and Gantt premium plans and group bonus scheme)</li> <li>4. Understand the accounting process for labor costs and payroll</li> <li>5. Understand the causes, prevention and Measurement of labour turnover</li> </ol>	<p><b>UNIT IV: ACCOUNTING FOR LABOUR (5)</b></p> <ol style="list-style-type: none"> <li>4.1. Types of Labour</li> <li>4.2. Essential Features of Good Wage System</li> <li>4.3. System of Wage Payment <ol style="list-style-type: none"> <li>4.3.1 Time Rate Systems</li> <li>4.3.2. Piece Rate System</li> <li>4.3.3. Premium and Bonus Plans</li> <li>4.3.4. Group Bonus Schemes</li> </ol> </li> <li>4.4. Pay-Roll Department</li> <li>4.5. Prevention of Fraud in Wage Payment</li> <li>4.6. Idle Time</li> <li>4.7. Labour Turnover <ol style="list-style-type: none"> <li>4.7.1. Causes and Prevention of Labour Turnover</li> <li>4.7.2. Measurement of Labour Turnover</li> </ol> </li> </ol>

<ol style="list-style-type: none"> <li>1. Understand the concept and classification of overhead</li> <li>2. Understand the concept of allocation, apportionment and absorption of overhead</li> <li>3. Distribute service department factory overhead costs to production departments.</li> <li>4. Apply factory overhead using predetermined rates.</li> <li>5. Determine of overhead absorption rate using MHR, DLHR, Direct material, direct labour and Prime cost</li> </ol>	<p><b>UNIT V: ACCOUNTING FOR OVERHEADS (4)</b></p> <ol style="list-style-type: none"> <li>4.1 Overhead Classification <ol style="list-style-type: none"> <li>5.1.1. Definition of Overhead</li> <li>5.1.2. Classification of Overhead Costs</li> </ol> </li> <li>5.2. Overhead Accounting <ol style="list-style-type: none"> <li>5.2.1. Steps in Overhead Accounting: <ol style="list-style-type: none"> <li>5.2.1.1. Allocation and Apportionment of Overheads (Departmentalization of Overhead)</li> <li>5.2.1.2. Reapportionment of Overhead</li> <li>5.2.1.3. Absorption of Overhead</li> </ol> </li> </ol> </li> <li>5.3. Overhead Control</li> </ol>
<ol style="list-style-type: none"> <li>1. Identify what distinguishes variable costing from absorption costing</li> <li>2. Identify and explain the uses and limitations of absorption costing.</li> <li>3. Compute income under absorption costing and variable costing,</li> <li>4. Describe the capacity concepts that can be used in absorption costing</li> <li>5. Calculate and explain the causes of under absorption and over absorption of overheads</li> <li>6. Prepare a statement reconciling the reported profit using marginal costing and absorption costing and explain the difference in income</li> </ol>	<p><b>UNIT VI: INCOME RECOGNITION, MEASUREMENTS AND REPORTING (5)</b></p> <p><b>6.1. Absorption costing:</b></p> <ol style="list-style-type: none"> <li>6.1.1. Concept</li> <li>6.1.2. Importance</li> <li>6.1.3. Income Statement under Absorption Costing</li> <li>6.1.7. Limitations Absorption Costing</li> </ol> <p><b>6.2. Variable costing:</b></p> <ol style="list-style-type: none"> <li>6.2.1. Concept</li> <li>6.2.2. Importance</li> <li>6.2.3. Income Statement under Variable Costing</li> <li>6.2.4. Reconciliation of Profit between Absorption and Variable Costing Techniques Showing the Causes of Difference.</li> <li>6.2.5. Limitations of Variable Costing.</li> </ol>
<ol style="list-style-type: none"> <li>1. Explain the features of cost-volume profit (CVP) analysis</li> <li>2. Understand and calculate Profit volume ratio</li> <li>3. Evaluate and interpret cost–volume–profit data and its value as a support for management decision making</li> <li>4. Calculate the contribution of a product</li> <li>5. Calculate the break-even point using three methods, contribution to sales ratio and margin of safety</li> <li>6. Determine output level needed to achieve a target operating income</li> <li>7. Understand how income taxes affect CVP analysis</li> </ol>	<p><b>UNIT VII: COST VOLUME PROFIT ANALYSIS (5)</b></p> <ol style="list-style-type: none"> <li>7.1. Introduction of CVP Analysis</li> <li>7.2. Assumptions of CVP Analysis</li> <li>7.3. Contribution Margin Analysis,</li> <li>7.4. Contribution Margin Ratio</li> <li>7.5. Cost Volume Ratio</li> <li>7.6. Break- Even Analysis under Constant Underlying Situations: <ol style="list-style-type: none"> <li>Graphical Method</li> <li>Formula Method</li> </ol> </li> <li>7.7. Margin of Safety</li> <li>7.8. Determination of Selling Price for Realizing Desired Profit.</li> <li>7.9. Multiple Products and Breakeven Rules</li> </ol>

<ol style="list-style-type: none"> <li>1. Identify the steps in management's decision-making process.</li> <li>2. Indicate the relevant costs in a make-or-buy decision.</li> <li>3. Identify the relevant costs in accepting an order at a special price.</li> <li>4. Give the decision rule in deciding whether to sell or process materials further</li> <li>5. Identify the factors to be considered in retaining or replacing equipment.</li> <li>6. Explain the factors that are relevant in deciding whether to eliminate an unprofitable segment.</li> </ol>	<p><b>DECISION MAKING (8)</b></p> <ol style="list-style-type: none"> <li>8.1. Decision Making Process</li> <li>8.2. Types of Decision</li> <li>8.3. Evaluation of Different Types of Decision: <ol style="list-style-type: none"> <li>8.3.1. Make or Buy Decision</li> <li>8.3.2. Special Order Decision</li> <li>8.3.3. Decision to sell or process further</li> <li>8.3.4. Drop or Continue Decision</li> <li>8.3.5. Replacement of Assets.</li> </ol> </li> </ol>
<ol style="list-style-type: none"> <li>1. Describe the meaning, purpose and benefits of business budget</li> <li>2. Discuss the advantages and disadvantages of budgets to an organization</li> <li>3. Recognize the effect of limiting factors on the preparation of budgets</li> <li>4. Acquaint student to prepare business budgets</li> </ol> <ol style="list-style-type: none"> <li>1. Examine the concept of a flexible budget and learn how to develop it</li> <li>2. Understanding the use of flexible budget in planning and controlling</li> <li>5. Develop variable overhead cost rate</li> </ol>	<p><b>UNIT VIII: BUDGETING FOR PLANNING (10)</b></p> <ol style="list-style-type: none"> <li>9.1. Concept of Budget and Budgeting</li> <li>9.2. The Functions of Budgets</li> <li>9.3. Stages in the Budgeting Process</li> <li>9.4. Preparation of Sales Budget, Production Budget, Materials Usage Budget, Materials Purchase Budget Labour Budget, Overhead Budgets and Cash Budgets</li> <li>9.5. Flexible Budget</li> <li>9.6. Limitations of Static Budget</li> <li>9.7. Planning of Variable and Fixed Overhead Cost</li> <li>9.8. Need of Flexible Budget for Managerial Decisions</li> <li>9.9. Preparation of Flexible Budget</li> </ol>

### Books

1. Garrison, R.H. & Noreen, E.W., *Managerial Accounting*, McGraw-Hill Companies, Inc.
2. Lal, Jawahar, *Cost Accounting*, Tata McGraw Hill Co., New Delhi
3. Lucy, T., *Cost Accounting*, Tata McGraw Hill Co., New Delhi.
4. Lynch & Williamson, *Accounting for Management Planning & Control*, Tata McGraw Hill Co.
5. Nigam, R.S. Narang, S.P. & Sehagal, B.C., *Principles and Practice of Cost Account*, S. Chand and Co., New Delhi.
6. Horngren CT, Foster G, Datar SM, Rajan MV and ,Itner C, Cost accounting: A managerial emphasis, Pearson prentice Hall of India.
7. Lynch RM & Williamson, accounting for Management, Tata Mc Graw-hill India.