

06 - FUNDAMENTALS OF COST & MANAGEMENT ACCOUNTING (Operational Level-2)

INTRODUCTION

This course is designed to make the students familiar with the application of basic methods and techniques of cost and management accounting. The course deals with the cost concepts, cost behaviour cost classification and cost flows, material, labour, factory overhead costing, marginal costing, standard costing and variance analysis.

OBJECTIVE

To provide the students with an appropriate knowledge of Cost and Management Accounting to enable them to:

- Understand basic concept of Management Accounting,
- Apply cost methods and techniques for preparing and presenting information for decision-making and cost control.

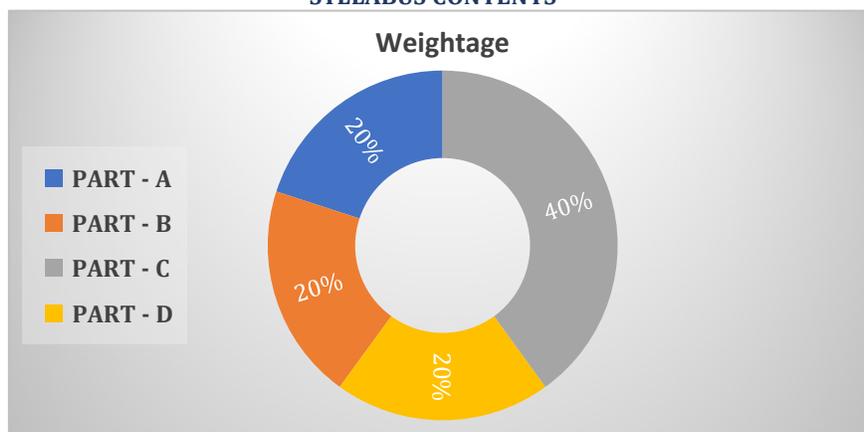
LEARNING OUTCOMES

On completion of this course, students will be able to:

- Understand the concept and scope of cost accounting

- Identify and explain classification of cost and their behaviour
- Apply material costing and controls
- Classify, calculate and evaluate labour cost and its efficiency
- Apply manufacturing overheads costing and controls
- Analyse and calculate product cost under different costing methods i.e., process costing, job order costing, batch and service costing
- Understand absorption and marginal costing methods;
- Prepare income statement by absorption and marginal costing methods and perform reconciliation of profits under both the methods
- Make use of standard costing;
- Calculate direct material, direct labour, variable, fixed overhead variances and sales variance and ascertain the reasons for variances
- Understand the inter-relationship between variances.

SYLLABUS CONTENTS



PART - A

THE NATURE, SOURCE AND PURPOSE OF MANAGEMENT INFORMATION

1. Introduction to Management Accounting

- What is management accounting
- Definitions
- The changing role of management accounting
- Data and information
- The purpose of management information
- Sources and categories of information
- ICMA and its role in management accounting

2. Cost classification

- The Concepts of Cost
- Total Product/Service costs
- Direct Costs and Indirect Costs

- Functional Costs
- Fixed Costs, Variable Costs, semi-variable & Step fixed Cost
- Production and Non-Production Costs
- Cost Codes
- Cost Units, Cost Objectives and Responsibility Centres

3. Cost Behavior

- Cost behavior and levels of activity
- Graphical representation of different types of costs
- Cost behaviors patterns
- Determining the fixed and variable elements of semi-variable costs and High and Low point method
- Linear Equations and Graphs

**PART - B
 COST ACCOUNTING SYSTEMS**

- 4. Accounting for Materials**
 - What is inventory control
 - Ordering, Receipt and Issue of Raw Materials (Re-Order Level, Maximum level, minimum level danger level)
 - Storage of Raw Materials
 - Inventory Control Levels
 - Economic Order Quantity Model
 - ABC Controls for inventory)
 - Accounting for Material Costs
 - Inventory Valuation
 - FIFO (First in First out)
 - LIFO (Last in First out)
 - AVCO (Average Cost)
- 5. Accounting for Labour**
 - Classification of Labor Direct and indirect labor
 - Measuring labour activity
 - Remuneration methods (time-based systems, piecework systems and individual and group incentive schemes)
 - Treatment and calculation of Overtime and idle time
 - Recording labour costs
 - Labour turnover
 - Accounting for labour costs
- 6. Accounting for Overheads**
 - Classification and collection of Overheads
 - Overhead absorption rates and basis of absorption
 - Overhead allocation
 - Overhead apportionment and reapportionment
 - Overhead absorption
 - Blanket absorption rates and departmental absorption rates
 - Over and under absorption of overheads

**PART - C
 COST ACCOUNTING TECHNIQUES AND METHODS**

- 7. Absorption and Marginal costing**
 - Absorption Cost
 - Marginal Cost and Marginal Costing
 - Difference between marginal and absorption costing
 - Principle of Marginal Costing
 - Marginal Costing and Absorption Costing and the calculation of profit and inventory under both the methods
 - Reconciling Profit

- Marginal Costing versus Absorption Costing

8. Job, Batch and Service costing

- Costing Method
- Job Costing
- Batch Costing
- Service Costing

9. Process costing

- The basics of process costing
- Losses in process costing
- Losses with scrap value
- Losses with a disposal cost
- Valuing closing work in progress
- Valuing opening work in process: FIFO method
- Valuing opening work in progress weighted average cost method
- Cost of Production report

10. Process costing, joint products and by-products

- Joint products and by- products
- Dealing with common costs
- Joint products in process accounts
- Accounting for by products
- Methods of Allocation of joint cost

**PART - D
 STANDARD COSTING**
11. Standard costing

- Standard costing (Explain standard costing using examples)
- Preparation of standards
- Uses of standard costing
- Other aspects of standard costing (Purpose and Limitations of standard costing)

12. Variance analysis

- Variances
- Direct material variances (Total, Price and usage variance)
- Direct labor variances (total, rate and efficiency variance)
- Variable overhead variances (total, expenditure and efficiency variance)
- Fixed overhead variances (total, expenditure, volume, capacity and efficiency variance)
- Reasons for cost variances
- Sales variances (Price and Volume Variances)
- Operating statements
- Deriving actual data from standard cost details and variances
- Inter-relationships between variances