

## FC 203: COST & MANAGEMENT ACCOUNTING

### Course Objective:

This paper will acquaint the students with cost and management accounting concepts and its applications for decision making, planning and control.

### Learning Outcomes:

After successfully completing this course, students will have the knowledge and skills to

- Understand the basis of conventional and contemporary costing systems
- Determine the costs of products and services
- Critically analyse relevant costs and provide recommendations for decision making
- Prepare plans and budgets and analyse variances from standard cost to pinpoint areas that need control

### Course Contents:

#### Unit I (3 weeks)

Nature, Scope of Management Accounting: Meaning, definition, nature and scope of Management Accounting; Cost concepts: , Cost Control, and Cost Reduction; Elements of Cost, Components of total Cost, Cost Sheet. Classification of Costs: Fixed, Variable, Semi- variable, and Step Costs; Product, and Period Costs; Direct, and Indirect Costs; Relevant, and Irrelevant Costs; Shut-down, and Sunk Costs; Controllable, and Uncontrollable Costs; Avoidable, and Unavoidable Costs; Imputed / Hypothetical Costs; Out-of-pocket Costs; Opportunity Costs; Expired, and Unexpired Costs; Conversion Cost. Cost Ascertainment: Cost Unit and Cost Center. Overhead allocation, Overhead Apportionment, (Simultaneous Equation, Repeated Distribution methods) and Overhead Absorption.

### References:

- Arora, M.N. (2016) A Textbook of Cost and Management Accounting. Vikas Publishing House Pvt. Ltd. Chapters1, 2, 5.
- Maheshwari, S.N. and Mittal, S.N. (2016) Cost Accounting: Theory and Problems. Shree Mahavir Book Depot Chapters1, 5.

#### Unit II (3 weeks)

Cost-Volume-Profit Analysis: Marginal cost, Contribution per unit and Total contribution. Profit-Volume Ratio, Break-even Analysis : Cost Break-even Point, Composite Break-even Point, Cash Break-even Point, Margin of safety. Relevant Costs and Decision Making such as : Key Factor,

Pricing, Product Profitability, Dropping a product line, Make or Buy, Export Order, Sell or Process

## **COST & MANAGEMENT ACCOUNTING**

Further, Shut down vs. Continue operations.

### **References:**

Arora, M.N. (2016) A Textbook of Cost and Management Accounting. Vikas Publishing House Pvt. Ltd. Chapters 10, 11.

Maheshwari, S.N. and Mittal, S.N. (2016) Cost Accounting: Theory and Problems. Shree Mahavir Book Depot Chapter 16.

### **Unit III**

**(3 weeks)**

Budgets and Budgetary Control: Meaning, Types of Budgets, Steps in Budgetary Control, Fixed and Flexible Budgeting, Sales budget, Production Budget, Raw material consumption Budget, Raw Material Purchase Budget, Overhead Budgets, Cash Budget, and Master Budget. Zero based budgeting. Standard Costing and Variance Analysis: Meaning of Standard Cost and Standard Costing, Advantages, Limitations and Applications; Material Cost Variance, Price and Usage Variance and Mix and yield Variance; Labor Cost Variance, Rate and Usage Variance, Idle time, Mix and Yield variance.

### **References:**

Arora, M.N. (2016) A Textbook of Cost and Management Accounting. Vikas Publishing House Pvt.

Ltd. Chapters 12, 13.

Maheshwari, S.N. and Mittal, S.N. (2016) Cost Accounting: Theory and Problems. Shree Mahavir Book Depot Chapters 14, 15.

### **Unit IV**

**(3 weeks)**

Process costing, concepts of normal loss, abnormal loss, abnormal effectiveness. Preparation of process accounts, normal loss account, abnormal loss account, abnormal gain account. Process costing with opening and closing WIP; equivalent units (using FIFO) and Cost allocation. Joint and by products : Allocation of joint costs based on Physical units method, Relative market value methods (Sales value at split off method and Net realisable value method). Introduction to the concept of Target Costing, Life Cycle Costing, Quality Costing, and Activity based Costing.

### **References:**

Arora, M.N. (2016) A Textbook of Cost and Management Accounting. Vikas Publishing House Pvt.

Ltd.7 Chapters 8, 18.

Maheshwari, S.N. and Mittal, S.N. (2016) Cost Accounting: Theory and Problems. Shree Mahavir Book Depot Chapters 9,21, 22, 23

## **COST & MANAGEMENT ACCOUNTING**

### **Text Books:**

1. Arora, M.N. (2016) A Textbook of Cost and Management Accounting. Vikas Publishing House Pvt. Ltd.
2. Maheshwari, S.N. and Mittal, S.N. (2016) Cost Accounting: Theory and Problems. Shree Mahavir Book Depot

### **Additional Readings:**

1. Datar, S.M. & Rajan, M.V. (2017) Horngren's Cost Accounting: A Managerial Emphasis. Pearson.

Note: Latest edition of the readings may be used.

### **Teaching Learning Process**

Lectures, problems and numerical, team paper, presentations, case studies

### **Assessment methods**

- Internal Assessment                      25 marks
- Written Theory Exam                      75 marks

**Key words:** Activity based costing, Budgetary control, Cost Reduction, Cost Variance, Life cycle costing, Management Accounting