

STAGE-3

S-303 - COST AND MANAGEMENT ACCOUNTING – PERFORMANCE APPRAISAL

i. Introduction:

There are certain cost, revenue and profit centres, which need frequent performance measurement for control purposes. This enables the management to identify any deviation from the planned activities. This course is confined to such cost techniques that enable the management accountant, to identify the said deviations and report to the management for taking remedial action.

ii. Objectives:

To provide the students with a detailed knowledge of Cost and Management Accounting, to enable them to:

- use the present and traditional approaches of cost accounting in different contexts, and
- apply the cost and management accounting techniques, and evaluate the desired results in the light of the outcomes.

iii. Outcomes:

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

- distinguish between the meaning of a joint product and a by-product,
- describe the appropriateness of two acceptable methods of accounting for by-product in the determination of the cost of the joint products,
- describe two acceptable methods of allocating cost to joint products and the cost of initial producing department,
- explain how standards are set or revised in manufacturing or service industries,

- compute and interpret material, labour, overhead and sales variances,
- prepare reports showing direct materials quantity and price variances and direct labour efficiency and rate variances,
- explain why a company prepares master budget,
- describe the components of master budget,
- explain the inter-relationship between the components of an operating budget and a financial budget,
- explain the role of computerised financial planning models in the budgeting process,
- explain how the JIT philosophy has changed manufacturing environment,
- describe the criterion for selecting a cost driver, when preparing a flexible budget,
- calculate overhead budget, spending, efficiency and volume variances,
- explain how flexible budget is used to control manufacturing and non-manufacturing activities,
- describe the causes for changes in gross profit,
- compute sales volume variance, cost volume variance and sales mix variances,
- describe the need for uniform cost accounting,
- design and install costing system and cost reports of a manufacturing company,
- apply direct and absorption costing approaches in job, batch and process cost systems, and
- prepare ledger accounts according to context: direct or absorption-based in job, batch or process systems including all related accounts.

INDICATIVE GRID:

SYLLABUS CONTENT AREA	WEIGHTAGE
SECTION – A COST ACCOUNTING SYSTEMS AND TECHNIQUES 1. Marginal and Absorption Costing 2. Activity Based Costing 3. Process Costing 4. Effect of JIT 5. Uniform Costing	30%
SECTION – B STANDARD COSTING AND VARIANCE ANALYSIS 6. Setting Standard Cost 7. Variance Analysis and Profit Reconciliation 8. Interpretation of variances	30%
SECTION - C BUDGETING AND BUDGETARY CONTROL 9. Preparation of Budget 10. Zero Based Budgeting and Activity Based Budgets 11. Budgetary Control	30%
SECTION-D PERFORMANCE MEASUREMENT AND TRANSFER PRICING	

12. Divisional Performance Measurement	10%
13. Transfer Pricing	
TOTAL	100%

Note: The weightage shown against each section indicates, study time required for the topics in that section. This weightage does not necessarily specify the number of marks to be allocated to that section in the examination.

CONTENTS

SECTION-A

COST ACCOUNTING SYSTEMS AND TECHNIQUES

- 1. Marginal and Absorption Costing**
Marginal costing and absorption costing, Effect of both systems on profit and inventory valuation, Profit reconciliation.
- 2. Activity Based Costing**
Emergence of ABC systems, Comparison of traditional and ABC systems, Designing ABC system, ABC in service organisations, Pitfalls in using ABC information.
- 3. Process Costing**
Adjustment of WIP at start: FIFO and average method, Normal, abnormal losses and abnormal gain, Adjustment of scrap value of lost units, Addition of units, Joint and by-products, Accounting for spoilage, rework and scrap.
- 4. Effect of JIT Production**
The benefits of just in time production, Total quality management, Theory of constraints and throughput accounting, Throughput accounting (TA) ratio, Accounting entries for a JIT manufacturing system (Back flush).
- 5. Uniform Costing**

SECTION - B

STANDARD COSTING AND VARIANCE ANALYSIS

- 6. Setting Standard Cost**
Establishing cost standards, Direct material standards, direct labour standards, Overhead standards, Basic cost standards, ideal standards and currently attainable standards, Purposes of standard costing.
- 7. Variance Analysis and Profit Reconciliation**
Computation of cost and sales variances, Mix and yield variances, Idle time variances, Recording standard costs in the accounts, Reconcile standard profit and actual profit using absorption and marginal costing systems, Accounting disposition of variances.
- 8. Interpretation of Variances**
Interpretation of variances, interrelationship, significance, Planning and operational variances, Criticism of standard costing.

SECTION - C

BUDGETING AND BUDGETARY CONTROL

- 9. Preparation of Budget**
Theory of budgeting, Administration and stages in the budgeting process, Functional Budgets, Projected income statement and balance sheet, Cash budget, The budgeting process in non-profit organisations, Flexible and Fixed Budgets, Rolling budget.
- 10. Zero Based Budgeting and Activity Based Budgets**
Incremental approaches of budgeting, Zero based budgeting- merits and pitfalls, Activity based budgeting approach.
- 11. Budgetary Control**
Feedback and feed-forward controls, Budget variances and their causes, Responsibility centres and budgeting, Behavioural implications of budgeting and budgetary control.

SECTION - D

PERFORMANCE MEASUREMENT AND TRANSFER PRICING

- 12. Divisional Performance Measurement**
Cost centre, revenue centre, profit centre and investment centre, Methods of measuring divisional performance, Return on capital employed, Residual income, Divisional performance reporting.

Recommended Books

- 13. Transfer Pricing**
Transfer pricing methods, Pricing at cost, Standard cost plus mark-up, Market prices, Dual pricing, Negotiated prices, Capacity constrained, Goal congruence.

CORE READINGS		
TITLE	AUTHOR	PUBLISHER
Managerial Accounting	Ray H. Garrison & Eric W. Noreen	South Western Publishing Co. USA
Management and Cost Accounting	Colin Drury	Thomson Learning, High Holborn Ouse, 50-51 Bedford Row, London
Management Accounting Performance Evaluation	PBP	Professional Business Publications, Lahore.
Cost & Managerial Accounting	Jack Gray & Don Ricketts	McGraw-Hill Company Inc., Princeton Road, S-1 Hightslown, NJ08520, New York.
ADDITIONAL READING		
Cost Accounting A Managerial Emphasis	Charles T. Horngren / George Foster & Srikant M. Datar	Prentice Hall of India (Pvt) Ltd., New Delhi 110001, India.
Cost Accounting	Adolph Matz / Milton F. Usry	South Western Publishing Co., Cincinnati, Ohio, U.S.A.