

# MGT 212: Cost and Management Accounting

Full Marks: 100

Pass Marks: 35

Lecture Hours: 150

## Course Objectives

The objectives of the course are to provide the students with in-depth knowledge of cost and management accounting in order to enable them to develop, arrange and classify cost information required for decision making for maximizing the profit and reducing / eliminating losses. The course further aims at developing a sound base for higher study in accounting besides in practical knowledge required by the middle level managers to handle cost information independently.

## Course Description

This course contains conceptual and theoretical foundation of cost and management accounting ; It also comprises classification and segregation of cost, accounting for material and labour, allocation, apportionment and absorption of overhead cost, costing in different situations such as service costing, job and contract costing, process costing etc., income statement under variable and absorption costing techniques, standard costing system with material and labour cost variance, flexible budgeting under different levels of activities, overhead cost variance,

## Course Details

### 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 Scalon'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.

**Unit 5: Costing in Different Situations****42 LHS**

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.

### **Suggesting Readings**

Atkinson, A. A., Kaplan, R. S., Matsumura, E.M., Young, S.M & Kumar, G. A. (2012). *Management Accounting/6e*. New Delhi: Pearson Education Pvt. Ltd.

Garrison, R. H. & Noreen, E. W. (2017). *Managerial Accounting* McGraw-Hill Companies, Inc.

Lynch & Williamson, ( ) *Accounting for Management Planning & Control*, Tata McGraw Hill Co.

Pillai & Bagavathi (2017). *Cost Accounting* New Delhi: S. Chand and Company Ltd.