

COST AND MANAGEMENT ACCOUNTING

Course No.: MGT 212

Nature of the Course: Core

Full Marks: 100

Pass Marks: 35

Lecture hour: 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.

Contents

Unit 1: Conceptual Foundation

LH 6

Meaning, objectives, importance, advantages and limitations of cost & management accounting. Differences between cost and management accounting. Limitations of financial accounting. Concept and importance of cost, cost segregation & estimation: Concept and methods of cost segregation: i) Two point method and ii) Least square method & iii) Estimation of cost

Unit 2: Accounting for Materials

LH 10

- Materials/Inventory: Concept, reasons and objectives for holding material / inventory. Inventory Control: Meaning, importance and techniques: Economic order quantity: concept and techniques-formula, and trial and error approaches-considering discount under certainty condition, re-order, maximum, minimum, danger and average stock levels, safety stock under certainty.
- Perpetual inventory system, stock control through ABC analysis Concept & technique and just in time inventory: concept, advantages and limitations.

Unit 3: Accounting for Labour Cost

LH 14

- Labour cost: Concept and need for control of labour cost.
- Premium Plan: Premium bonus scheme-Halsey and Rowan Plan, Taylor's differential piece rate system, and Gantt's Task and Bonus plan, Group bonus scheme: Pristman's and Scanlon's plan.
- Labour turnover: Concept, causes and effects, cost of labour turnover: preventive and replacement cost calculation, labour turnover ratios.

Unit 4: Accounting for Overhead Cost:

LH 14

- Overhead cost distribution: Meaning, primary & secondary distribution of overhead cost under direct method.
- Allocation, apportionment and absorption of overhead: meaning, importance, and allocation, apportionment and absorption of overhead based on:
 - Volume: Concept and ascertainment of total cost and profit under Traditional Volume Base Costing Technique.
 - Activity: Concept, limitations of traditional overhead absorption system, procedures of absorption of overhead cost under Activity Base Costing Technique, ascertainment of cost and profit under ABS technique, activity based profitability analysis, benefits and limitations of activity based costing system.

Unit 5: Costing in Different Situations**LH 30**

- Service costing: Concept and scope of operating costing; Preparation of Cost sheet for Transport Service for passenger, Hospital and Hotel & Restaurant Services, limitations of service costing
- Job order costing: Concept, 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 and cost of goods sold and computation of unit costs, Job order costing in service companies.
- Process costing: Concept and preparation of Process account with/without beginning and ending work-in-progress inventory, partial & total transfer of output to next process, accounting for process loss/gain: normal and abnormal loss, abnormal effective/gain and treatment of spoilage, wastage, scrap and defective unit, accounting for inter process profit, reserve for unrealized profit, Equivalent unit: Concept and costing: need, importance and methods: Weighted average and FIFO costing techniques, difference between job order costing and process costing.
- Joint Product and by product costing: Concept of joint and by-product, apportionment of joint cost under unit of output and revenue basis.

Unit 6: Accounting for Profit Planning**LH 30**

- Absorption costing: Concept, importance, and income statement under absorption costing, normal capacity and fixed manufacturing overhead rate, treatment of opening and closing stock, over and under absorption of fixed manufacturing overhead & adjustment in margin and limitations.
- Variable costing: Concept, use and importance, Income statement under variable costing, variable manufacturing cost and limitations.
- Reconciliation of profit/loss: Manufacturing overhead-period and product cost, fixed manufacturing overhead rate, difference in stock, reconciliation of profit between absorption and variable costing techniques showing the causes of difference.
- Cost Volume profit analysis: Meaning, importance, Contribution margin analysis, contribution margin ratio, Cost Volume ratio, Break-even-analysis: under constant underlying situations: changes on selling price, fixed cost, & variable cost, and under step fixed cost & multi-products situations, margin of safety, assumptions of CVP analysis, advantages, limitations and determination of selling price for realizing desired profit.

Unit 7: Cost Accounting for Planning and Control**LH 40**

- Standard costing: Concept, preliminaries to established standard costing system, difference between standard and budget, advantages and limitations.
- Variance analysis:
 - Material variance: Concept and calculation of cost, price, usage, mix and yield variances.
 - Labour variance: 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 Disposal of variances, preparation of Income Statement based on standard cost
- Budgeting for planning: Budget-Concept, importance, and Types-Sales budget: production budget, direct material consumption and purchase budget, direct labour budget, manufacturing overhead budget, cost of goods manufactured budget, selling/distribution and administrative expenses budget and cost of goods sold budget

- Flexible budgeting: Concept and limitations of planning (static budget), importance of flexible budgeting, flexible budgeting for overhead cost control on activity levels and budget allowance for actual level attained

Unit 8: Cost Reduction

LH 6

- Cost reduction and cost control: Cost reduction-pre-requisites, techniques, steps, responsibility & limitations
- Value engineering (analysis): Concept, advantages, tools and techniques for cost reduction
- Value analysis: Concept, objectives, importance, advantages and techniques of value analysis.

Suggested Books

Dangol, R.M. and et.al, ***Cost and Management Accounting***, Taleju Publishing House, Kathmandu

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

Koirala, M.R. and et.al, ***Cost and Management Accounting***, Buddha Academy Publication House, Kathmandu.

Koirala, Y.R. and et.al, ***Cost and Management Accounting***, Ashmita Publication, Kathmandu.

Lal, Jawahar, ***Cost Accounting***, Tata McGraw Hill Co., New Delhi

Lucy, T., ***Cost Accounting***, Tata McGraw Hill Co., New Delhi.

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

Munankarmi, S.P. and Shrestha, B.P., ***Cost and Management Accounting***, Samjhana Publication House, Kathmandu.

Nigam, R.S. Narang, S.P. & Sehagal, B.C., ***Principles and Practice of Cost Account***, S. Chand and Co., New Delhi.

Pillai & Bagavathi, ***Cost Accounting***, S. Chand and Company Ltd. New Delhi.

Tamrakar, M.R. and et.al, ***Cost and Management Accounting***, Pinnacle Publication, Kathmandu

Upadhyay, J.P. and et.al, ***Cost and Management Accounting***, Khanal Publication, Kathmandu.