

LEVEL II

PRINCIPLES OF COST AND MANAGEMENT ACCOUNTING

PAPER 5

OVERALL AIM

To equip the learner with skills to apply the principles, concepts and techniques of cost and management accounting to generate reports for decision-making.

LEARNING OUTCOMES

On completion of this course, the learner should be able to:

	Learning outcomes	K	C	A	An	S	E
1.	Explain the role of cost and management accounting	✓					
2.	Explain the elements of cost	✓					
3.	Allocate costs to cost units, cost objects and cost centres			✓			
4.	Analyse variances for decision making				✓		
5.	Compute product costs using different cost methods			✓			
6.	Compute relevant costs for decision-making			✓			
7.	Discuss the principles of budgeting		✓				
8.	Prepare budgets			✓			
9.	Explain ethical issues that may be encountered by management accountants		✓				

LEVEL OF ASSESSMENT

The examination will test the learner's ability to apply the principles, concepts and techniques of cost and management accounting.

EXAMINATIONS STRUCTURE

There will be a three-hour examination made up of sections A and B. Section A will comprise 20 compulsory multiple-choice questions of 20 marks. Section B will comprise five questions of 20 marks each, of which the candidate will be required to attempt any four.

DETAILED SYLLABUS

A INTRODUCTION

1. Cost accounting:
 - (a) Role, nature and scope of cost accounting; purpose of cost accounting information
 - (b) Selection of an ideal cost accounting system and challenges encountered
2. Management accounting:
 - (a) Nature, scope, limitations and application of management accounting
 - (b) Users of management accounting information and their information needs
 - (c) Role of financial and management accountants
 - (d) Relationship between financial, cost and management accounting
 - (e) Ethical requirements of management accountants

B COST CLASSIFICATION

1. Cost, cost unit, cost centre, cost object, cost objective, cost behaviour
2. Types of costs
3. Cost classification
4. Elements of manufacturing costs
5. Cost sheet/ statement
6. Cost estimation and methods used

C MATERIALS COSTING

1. Components of material cost
2. Materials control, including objectives, procedures and documents used
3. Inventory records
4. Centralised and decentralised stores management systems
5. Inventory control techniques
6. Continuous, periodic and perpetual inventory counting/ control methods or systems
7. Inventory valuation methods, including their applicability, advantages and disadvantages
8. Accounting for material losses

D LABOUR COSTING

1. Classification of labour costs
2. Procedures used in controlling labour costs
3. Causes, effects, costs and methods of reducing labour turnover
4. Job evaluation versus job analysis; merits and demerits of merit rating
5. Payroll accounting versus labour cost accounting; functions and responsibilities of the payroll function
6. Wages of labour and methods of their determination
7. Payroll fraud and prevention
8. Accounting for idle time, idle capacity and overtime
9. Labour remuneration methods, including their advantages and disadvantages
10. Incentive schemes, including their merits and demerits

E OVERHEAD COSTING

1. Classification of overheads

2. Semi-variable overhead segregation and methods used
3. Allocation and apportionment of overheads
4. Re-apportionment of service department overheads to production departments
5. Overhead absorption:
 - (a) Overhead absorption rates; causes of under/ over absorption of overheads
 - (b) Overhead recovery; accounting for under/ over recovery of overheads
6. Determination of capacity levels

F INTEGRATED AND INTERLOCKING COST ACCOUNTING SYSTEMS

G SPECIFIC ORDER COSTING METHODS

1. Job costing
2. Batch costing
3. Contract costing
4. Service costing

H PROCESS COSTING

1. Specific order costing versus process costing
2. Preparation of process accounts
3. Accounting for normal and abnormal losses or gains
4. Work-in-progress; equivalent units and preparation of appropriate statements
5. Joint products; methods of apportionment of joint costs
6. By-products; accounting for by-products

I VARIABLE (OR MARGINAL) AND ABSORPTION COSTING

1. Marginal costing versus absorption costing:
 - (a) Merits and demerits of each method
 - (b) Preparation of financial statements and

determination of cost of production and profit under each method

- (c) Impact of each method on profit
- 2. Accountant's model versus economist's model of cost-volume-profit analysis; cost and revenue functions in the accountant's model
- 3. Determination, interpretation and construction of graphs for:
 - (a) Breakeven point
 - (b) Contribution
 - (c) Profit-volume
 - (d) Margin of safety
 - (e) Angle of incidence
- 4. Preparation of cost-volume profit statements

J MEASUREMENT OF RELEVANT AND IRRELEVANT COSTS (DECISION MAKING)

- 1. Decision making process; limiting factor analysis
- 2. Relevant and irrelevant costs for decision making
- 3. Application of relevant and irrelevant cost analysis to decisions on:
 - (a) Determination of sales mix
 - (b) Discontinuation of a product line
 - (c) Make or buy
 - (d) Shut down or continue
 - (e) Expand or contract
 - (f) Special order acceptance or rejection
 - (g) Further processing
- 4. Evaluation of performance and interpretation of information to management

K ALTERNATIVE COST ACCOUNTING METHODS

1. Activity-based costing (ABC):
 - (a) ABC versus traditional costing systems
 - (b) Merits and demerits of ABC
 - (c) Classification of activities and selection the cost drivers; validity of different cost drivers
 - (d) Determination of product costs using ABC
2. Other alternative methods, including target costing, life cycle costing, total quality management, Backflush costing and throughput costing

L BUDGETING AND BUDGETARY CONTROL

1. Budget/ budgeting and the budgeting function
2. Organisational and behavioural aspects of budgeting
3. Budgetary control, preparation and reporting

M STANDARD COSTING AND VARIANCE ANALYSIS

1. Standard costs and standard costing; advantages and disadvantages of standard costing
2. Standard costing versus budgetary control; standard costs versus budgeted costs
3. Establishment of cost centres; classification and codification of accounts
4. Basic, ideal, currently attainable standards
5. Cost standards for direct materials, direct labour, overheads, sales price and sales margin
6. Standard cost card/ sheet; preparation of standard cost statements
7. Variances for direct materials, direct labour, overheads and sales
 - (a) Responsibility centres for variances
 - (b) Profit or loss statement showing interrelationship of variances

- (c) Causes of variances; control actions for variances
- (d) Investigation of variances
- (e) Reconciliation of budgeted and actual profit

REFERENCES

1. ICPAU, Cost & Management Accounting, Kampala
2. Arora, M. N., 2021. Cost Accounting, Principles & Practice, 13th ed, Vikas Publishing House.
3. Colin D., 2021. Management and Cost Accounting, 11th ed, Andover: Cengage Learning.