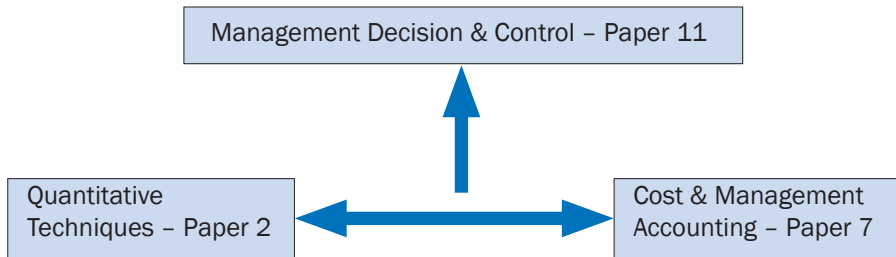


# COST AND MANAGEMENT ACCOUNTING – PAPER 7

## SYLLABUS CHART



### **OVERALL AIM**

To enable the learner develop cost and management accounting principles for the production of information for decision making.

### **LEARNING OUTCOMES**

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

1. Explain the roles of cost accounting, management accounting, and financial accounting.
2. Identify elements of costs.
3. Allocate and evaluate costs.
4. Calculate product costs under different methods of cost accounting.
5. Identify relevant costs for decision-making.
6. Describe the principles of budgeting and prepare budgets.
7. Identify any ethical issues that may be met by management accountants.



## **LEVEL OF ASSESSMENT**

The examination will be centred on the basics of management accounting, testing mainly knowledge and comprehension, as well as application and analysis.

## **EXAMINATIONS STRUCTURE**

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

## **DETAILED SYLLABUS**

### **A. INTRODUCTION**

1. The nature and scope of management accounting
2. Role of the management and cost accounting function
3. Relationship between management accounting, cost accounting and financial accounting
4. Users of management accounting information
5. Information needs of internal and external users of management accounting information
6. The role of a management accountant and financial accountant
7. Objectives; advantages of a costing system
8. Ethical requirements of a management accountant

### **B. COST CLASSIFICATIONS**

1. Meaning of:
  - (a) Cost, cost unit, cost centre, cost object, cost behavior
  - (b) Cost classification
2. Explain the following costs:
  - (c) Product
  - (d) Period
  - (e) Variable
  - (f) Fixed
  - (g) Relevant
  - (h) Irrelevant
  - (i) Avoidable



- (j) Unavoidable
- (k) Controllable
- (l) Non-controllable
- (m) Job
- (n) Process
- (o) Sunk
- (p) Opportunity
- (q) Replacement
- (r) Notional
- (s) Budgeted
- (t) Standard
- (u) Historical
- (v) Pre-determined
- (w) Normal
- (x) Abnormal
- (y) Differential
- (z) Marginal
- (aa) Future
- (ab) Conversion
- (a) Discretionary
- (b) Out-of-pocket

3. Cost classifications:

- (a) Types
- (b) Importance of each type

4. Elements of manufacturing costs; direct, indirect and non-manufacturing costs

5. Cost sheet /cost statement

**C. MATERIAL COSTING**

1. Meaning and components of material cost

2. Materials control:

- (a) Objectives
- (b) Procedures
  - (i) Purchasing
  - (ii) Issuance of materials from store
  - (iii) Storage



3. Inventory records:
  - (a) Bin card
  - (b) Stores ledger card
4. Types, merits and demerits of stores management systems:
  - (a) Centralised
  - (b) Decentralised
  - (c) Imprest
5. Documents used in materials control:
  - (a) Materials requisition note
  - (b) Bill of materials
  - (c) Goods received note
  - (d) Delivery note
  - (e) Materials returned note
  - (f) Materials transfer note
6. Techniques of inventory control:
  - (a) Economic order quantity
  - (b) Control level
  - (c) Just in time
  - (d) ABC analysis
  - (e) Inventory (stock) turnover ratio
7. Types, merits and demerits of the inventory counting (stocktaking) methods:
  - (a) Continuous inventory counting
  - (b) Periodic inventory counting
8. Perpetual inventory control system
9. Methods of inventory valuation and their applications:
  - (a) First in first out
  - (b) Last in first out
  - (c) Weighted average
10. Advantages and disadvantages of each method of inventory valuation
11. Accounting treatment for material losses



## **D. LABOUR COSTING**

1. Meaning of labour costs
2. Procedures followed in controlling labour costs
3. Labour turnover
  - (a) Meaning
  - (b) Causes
  - (c) Effects
  - (d) Costs
4. Job evaluation versus job analysis
5. Merit rating: merits and demerits
6. Payroll accounting
  - (a) Meaning
  - (b) Comparison with labour cost accounting
  - (c) Functions and responsibilities of the payroll function
7. Determination of gross wages:
  - (a) Clock and time cards
  - (b) Piece work cards
  - (c) Employee record card
  - (d) Job card
8. Fraud in the payroll department and how to overcome it
9. Concepts of idle time, idle capacity, overtime and their treatment
10. 10. Methods of labour remuneration:
  - (a) Time rate system
  - (b) Piece rate method
  - (c) Premium and bonus plans
11. Advantages and disadvantages of each method
12. Principles of a good incentive scheme
13. Incentive schemes:
  - (a) Halsey premium plan
  - (b) Rowan plan group bonus scheme



- (c) Merits and demerits of each scheme

## **E. OVERHEAD COSTING**

1. Meaning of overheads
2. Ways of overhead classification
3. Methods of semi-variable overhead segregation:
  - (a) High-low method
  - (b) Scatter diagram
  - (c) Least squares regression method
  - (d) Simultaneous equations
4. Allocation and apportionment of overheads
5. Re-apportionment of service department overheads to production departments:-
  - (a) Simultaneous equation method
  - (b) Repeated distribution method
  - (c) Elimination/step method
6. Overhead absorption
  - (a) Determination of overhead absorption rates:
    - (i) Actual overhead rate
    - (ii) Predetermined overhead rate
    - (iii) Blanket and departmental overhead rates
  - (b) Methods of overhead recovery:
    - (i) Direct material cost
    - (ii) Direct wages
    - (iii) Prime cost
    - (iv) Direct labour hour
    - (v) Machine hour rate
    - (vi) Rate per unit of output
    - (vii) Sales price
  - (c) Accounting treatment of under/over recovery of overheads
  - (d) Causes of under/ over absorption of overheads
7. 7. Meaning and determination of capacity levels:
  - (a) Idle capacity
  - (b) Normal capacity



- (c) Actual capacity
- (d) Practical capacity
- (e) Maximum capacity
- (f) Capacity based on expected sales

## **F. COST ACCOUNTS**

1. Meaning of integrated and interlocking cost accounting systems
2. Advantages and disadvantages of each system
3. Principal accounts maintained under each system
4. Reconciliation of profits under the two systems

## **G. SPECIFIC ORDER COSTING METHODS**

1. Job costing
  - (a) Meaning
  - (b) Features
  - (c) Procedures
  - (d) Determination of the cost of a job
2. Batch costing
  - (a) Meaning
  - (b) Procedures
  - (c) Determination the cost of a batch
3. Contract costing
  - (a) Meaning
  - (b) Features
  - (c) Procedures
  - (d) Preparation of contract accounts
  - (e) Determination of profit/loss on contracts

## **H. PROCESS COSTING**

1. Process costs:
  - (a) Meaning
  - (b) Features
  - (c) Specific order costing versus process costing
  - (d) Preparation of process accounts



- (e) Concepts of normal and abnormal losses or gains
  - (f) Accounting treatment of normal and abnormal losses or gains
  - (g) (Work-in-progress)
    - (i) Equivalent units
    - (ii) Determination of equivalent units
    - (iii) Preparation of appropriate statements
2. Joint products:
- (a) Meaning
  - (b) Methods of apportionment of joint costs:
    - (i) Average unit cost
    - (ii) Contribution
    - (iii) Physical unit
    - (iv) Survey
    - (v) Market value
3. By-products:
- (a) Meaning
  - (b) Classification
  - (c) By-products, main product and joint products
  - (d) Methods of accounting for by-products:
    - (i) Cost methods
    - (ii) Non-cost methods

## **I. ABSORPTION VERSUS MARGINAL COSTING**

1. Meaning of marginal and absorption costing
2. Marginal costing versus absorption costing
3. Merits and demerits of each method
4. Impact of each method on the profit
5. Accountant's model versus economist's model of costing
6. Linear costs and revenue functions in the accountant's model
7. Determination, interpretation and construction of graphs for:
  - (a) Breakeven point
  - (b) Contribution
  - (c) Profit-volume
  - (d) Margin of safety





- (e) Angle of incidence
- 8. Preparation of cost-volume-profit statements

## **J. MEASUREMENT OF RELEVANT AND IRRELEVANT COSTS**

1. Concept of decision making
2. Meaning of relevant costs and irrelevant costs
3. Steps in decision making
4. Limiting factors for decision making
5. Relevant costs versus irrelevant costs for decision making
6. Preparation of statements of relevant costs and irrelevant costs under different decision scenarios:
  - (a) Determination of sales mix
  - (b) Discontinuation of a product line
  - (c) Make or buy
  - (d) Shut down or continue
  - (e) Equipment replacement
  - (f) Expand or contract
  - (g) Investment in asset
7. Evaluation of performance and interpretation of information to management

## **K. ACTIVITY-BASED COSTING (ABC)**

1. Meaning
2. ABC versus traditional costing systems
3. Merits and demerits of ABC
4. Classification of activities
5. Selection the cost drivers
6. Evaluation of the validity of different cost drivers
7. Determination of product costs using ABC

## **L. BUDGETING AND BUDGETARY CONTROL**

1. Meaning of budget, control and budgetary control
2. Advantages and disadvantages of budgets and budgetary control



3. Organisational and behavioural aspects of budgeting
4. Stages in the budgeting process
5. Limiting factors in budgeting
6. Types of budgets:
  - (a) Functional budgets
  - (b) Flexible and fixed budgets
  - (c) Master budget
  - (d) Basic and current budgets
  - (e) Short-term and long-term budgets
  - (f) Preparation of each of the above budgets
7. Zero-based budgeting (ZBB)
  - (a) Meaning
  - (b) Merits and demerits
8. Computation of control ratios:
  - (a) Capacity
  - (b) Efficiency
  - (c) Activity

## **M. STANDARD COSTING AND VARIANCE ANALYSIS**

1. Meaning of standard costing and standard costs
2. Standard costing versus budgetary control; standard costs versus budgeted costs
3. Advantages and disadvantages of standard costing
4. Steps for setting standards for standard costs:
  - (a) Establishment of cost centres
  - (b) Classification and codification of accounts
  - (c) Types of cost standards:-
    - (i) Basic cost standards
    - (ii) Ideal cost standards
    - (iii) Currently attainable standard costs
  - (d) Establishing cost standards
    - (i) Direct materials standards
    - (ii) Direct labour standards
    - (iii) Overhead standards



- (e) Ascertainment of desirable levels of attainment
  - (f) Ascertainment of activity levels
  - (g) Preparation of standard cost statements
5. 5. Types of cost standards:
    - (a) Basic cost standards
    - (b) Ideal cost standards
    - (c) Currently attainable standard costs
  6. Desirable level of attainment
  7. Activity levels
  8. Setting of standards for:
    - (a) Direct materials
    - (b) Direct labour
    - (c) Overheads; fixed, variable and semi variable
  9. Standard cost statements
  10. Meaning of variance analysis
  11. Determination of variances:
    - (a) Direct materials,
    - (b) Direct labour
    - (c) Overheads
  12. Determination of sales variances
  13. Responsibility centres for variances
  14. Profit and loss statement showing interrelationship of the variances

## **ETHICAL ISSUES**

1. Ethical responsibilities and challenges of management accountants

## **REFERENCES**

1. Drury Colin (2008): Management and Cost Accounting, International Thomson Business Press. 7<sup>th</sup> Edition.
2. Lucey Terry (2009): Costing, Book Power Publishers. 7<sup>th</sup> Edition
3. Horngren T. Charles, Foster George, Datar M. Srikant (1997): Cost Accounting, Prentice Hall International. 9<sup>th</sup> Edition.

