



INTERMEDIATE

COST AND MANAGEMENT ACCOUNTING



- ▶ ICAI Study Material Questions Covered
- ▶ RTP/MTP Questions Covered
- ▶ Past Year Exam Questions Covered

Book recommended by AIR 1

CA Sunil Keswani

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Chapter 1

Introduction to Cost and Management Accounting

Past Exam Trend

	M-18	N-18	M-19	N-19	N-20	J-21	J-21	D-21	M-22	N-22	M-23	N-23	M-24	S-24
Th.	7.5	5	5	5	10	10	5	10	10	5	5	5	5	5

Basic Theory Concept

Theory of Generic Competitive Strategies	<ul style="list-style-type: none"> This theory was given by Michael E. Porter It suggested there are four strategic dimensions to achieve competitive advantage which are as follows: <ul style="list-style-type: none"> ➤ Cost leadership ➤ Product differentiation ➤ Focus ➤ Niche
Costing	<ul style="list-style-type: none"> It is defined as “the technique and process of ascertaining costs”.
Cost Accounting	<ul style="list-style-type: none"> It is defined as “the process of accounting for cost which begins with the recording of income and expenditure or the bases on which they are calculated and ends with the preparation of periodical statements and reports for ascertaining and controlling costs. The emergence of cost accounting is due to limitations of financial accounting to meet the informational needs of the management.
Cost Accountancy	<ul style="list-style-type: none"> It is the application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the

	ascertainment of profitability. It includes the presentation of information derived therefrom for the purpose of managerial decision making.
Management Accounting	<ul style="list-style-type: none"> It is the application of the principles of accounting and financial management to create, protect, preserve and increase value for the stakeholders for profit and non-profit enterprises in the public and private sector.” It assists management by provision of relevant information for planning, organizing, controlling, decision making etc.
Cost Management	<ul style="list-style-type: none"> It is the application of concepts of management accounting to provide the information needed to plan, monitor and control costs.
Objectives of cost Accounting	<ul style="list-style-type: none"> Cost Ascertainment – It helps in arriving at cost of production of each individual unit of production or job or operation or process or department or service Fixation of Selling Price - It act as very important basis of fixing the selling price because many a time the pricing of the product is done on the basis of cost of production. Helps in Estimating – It helps in estimating the cost and profit to arrive at prices in cases such as contracts or jobs where tender or quotations are to be given. Cost Control – 'Control' means that Plans and actions should confirm each other. From Cost Accounting, the managers at various level in the organization are able to control costs as well. Cost Reduction – It means to achieve permanent reduction in cost by using new technology or methods without affecting the quality of the product or services. Assisting Management in Decision Making – It assist management in taking long-term as well as short term decisions by providing data or information.
Cost Control	<ul style="list-style-type: none"> It aims to ensure that costs are incurred within the predetermined standards. If there are any variations than same should be reported on continuous basis. Following steps are required for cost control: <ul style="list-style-type: none"> ➤ Determination of predetermined standard or results ➤ Measurement of actual performance

	<ul style="list-style-type: none"> ➤ Comparison of actual performance with set standard or target ➤ Analysis of variance and action 												
Cost Reduction	<ul style="list-style-type: none"> • It aims to reduce cost permanently by using new method or technology without affecting the quality. • Following actions can be taken for cost control: <ul style="list-style-type: none"> ➤ An entity classifies various activities in the organization ➤ Classification of value added and non-value added activities are done ➤ Non-value added can be removed without affecting the characteristics of the product. • Michael Porter developed strategic tool for value chain analysis. 												
Distinguish between cost control and cost reduction	<table border="1"> <thead> <tr> <th>COST CONTROL</th><th>COST REDUCTION</th></tr> </thead> <tbody> <tr> <td>1. Cost control represents efforts made towards achieving a target or goal.</td><td>1. Cost reduction represents achievements in reduction or cost.</td></tr> <tr> <td>2. The process of cost control is to set up a target, investments the variances/ variations and taking remedial measures to correct them.</td><td>2. Cost reduction is not contended merely with maintenance of performance according to the standards.</td></tr> <tr> <td>3. Cost control assumes existence of standard of norms which are not challenged.</td><td>3. It assumes the existence of concealed potential savings in the standards or norms which are therefore subject to constant challenge or improvement.</td></tr> <tr> <td>4. Cost control is a preventive function. Costs are optimized before they are incurred.</td><td>4. Cost reduction is a corrective function. It operates even when efficient cost control system exists. There is a room for reduction in the achieved costs.</td></tr> <tr> <td>5. Cost control sometime lacks dynamics approach.</td><td>5. It is continuous process of analysis by various methods of all the factors affecting costs, efforts and functions in an organization. The main aim is to have continuous economy in costs.</td></tr> </tbody> </table>	COST CONTROL	COST REDUCTION	1. Cost control represents efforts made towards achieving a target or goal.	1. Cost reduction represents achievements in reduction or cost.	2. The process of cost control is to set up a target, investments the variances/ variations and taking remedial measures to correct them.	2. Cost reduction is not contended merely with maintenance of performance according to the standards.	3. Cost control assumes existence of standard of norms which are not challenged.	3. It assumes the existence of concealed potential savings in the standards or norms which are therefore subject to constant challenge or improvement.	4. Cost control is a preventive function. Costs are optimized before they are incurred.	4. Cost reduction is a corrective function. It operates even when efficient cost control system exists. There is a room for reduction in the achieved costs.	5. Cost control sometime lacks dynamics approach.	5. It is continuous process of analysis by various methods of all the factors affecting costs, efforts and functions in an organization. The main aim is to have continuous economy in costs.
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Scope of Cost Accounting	<ul style="list-style-type: none">• Costing• Cost accounting• Cost analysis• Cost comparison• Cost control• Cost reports• Statutory compliance		
Difference between cost accounting and financial accounting			
	Basis	Financial Accounting	Cost Accounting
	1. Objective	To provide information about profitability and financial position of the business.	To ascertain cost, control cost and to provide information for decision making.
	2. Analysis of Costs and Profits	Shows the overall profit/loss of the entire organization.	Shows the detailed cost and profit for each product, job, contract etc.
	3. Control	Emphasis is on reporting, not on control.	Emphasis is on control of various costs.
	4. Decision-making	Limited use in decision making	Facilitate decision-making in the area of production, purchase, etc.
	5. Relation to time	Historical in nature	Focus on present and future
	6. Responsibility fixation	Don't provide any effective help in responsibility fixation.	Effectively help in responsibility fixation.
	7. Legal Requirement	Have to meet requirements of the Companies Act and the Income Tax Act.	Preparation is voluntary except in a few cases where law makes it mandatory.
	8. Generality	Guided by generally accepted principles of accounting	Tailor made to suit needs of specific organization, division or even product and service.

	9. Person interested	The whole world is interested	Mainly for use internally by the management at different levels.
	10. Nature of transactions	Mainly record transactions with outsiders	Based on data available from financial accounts and that generated within the costing department.
Differences between Cost Accounting and Management Accounting	Point of Distinction	Management Accounting	Cost Accounting
	1. Outlook	It is concerned with forecasting of the costs and hence it looks into future.	It is concerned with historical cost i.e. the cost which has already been incurred in past.
	2. Scope	It has a broader scope and provides all type of information.	It has a limited scope to provide cost information only.
	3. Emphasis	Its emphasis is on planning, controlling and decision making	Its emphasis is on cost ascertainment and cost control.
	4. Statutory requirement	It is voluntary.	Cost records are compulsory to be prepared in case of certain industries or companies.
	5. Data base	It is based on data derived from cost accounting, financial accounting and other sources.	It is based on data derived from financial accounting.
	6. Installation	It can't be installed without proper cost accounting system.	It can be installed without management accounting system.
Users of Cost and Management Accounting	<ul style="list-style-type: none"> • Internal Users <ul style="list-style-type: none"> ➤ Policy makers – They require data to achieve short & long term goals ➤ Managers – They require data to know about the cost and price of product as well as to evaluate strategic options to make decisions 		

	<ul style="list-style-type: none"> ➤ Operational level staff – They require data to know the product specifications, performance evaluation parameters, performance goals etc. ➤ Employees – They require data related with time, attendance, incentive, work performance etc. • External Users <ul style="list-style-type: none"> ➤ Regulatory authorities – They require data for tariff determination, subsidies calculation etc. ➤ Auditors – They require data to conduct audit for various purpose. ➤ Shareholders – They require data which affect their investment in entity. ➤ Creditors and lenders – They are concerned regarding entity's ability to pay to creditors or lenders.
Essentials of good Cost Accounting System	<ul style="list-style-type: none"> • Tailor made system - The cost accounting system should be tailor made, practical, simple and capable of meeting the requirements of business concern. • Simple – It should be easy to understand and simple to operate. • Accurate and authentic - The costing system should accurate and authenticated data so that correct decision can be taken. • Economical - The cost of installing and operating the system should justify the results. • Uniformity & Consistency – The data and its result should be uniform and consistent in classification, treatment of various items etc. • Integrated and Inclusive – It should be integrated with other system like financial accounting, taxation etc. • Trust on the system – The management should actively participate for ensuring trust on the system and its output. • Flexible and adaptive – It should be flexible to adopt the changing requirements of the business.
Factors for installing a cost accounting system	<ul style="list-style-type: none"> • Objectives - The objectives of installing a costing system and the expectations of the management from the system should be identified first. • Study of Variables - It is important to ascertain the significant variables of the manufacturing unit which are amenable to control and affect the concern.

About The Author

CA Sunil Keswani, currently a faculty at PW, is a fellow member of ICAI, qualified in 2010, and holds a Master's degree as Chartered Financial Analyst. With experience as a Regional Credit Manager at ICICI Bank and a distinguished speaker at CAG, he has excelled as a Financial Planner for 9 years. With 13 years of teaching experience, specializing in Cost Accounts, Management Accounting, and Financial Management, he is recognized as the best faculty by NIRC-ICAI. Sir Sunil Keswani's impact is evident through 70 students achieving All India Ranks in the CA Examination, along with 150 students securing perfect scores in their graduation-level subjects.

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