

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD  
(Department of Business Administration)**

**COST AND MANAGEMENT ACCOUNTING (568/5538)**

**CHECKLIST**

**SEMESTER: SPRING, 2014**

This packet comprises the following material:

1. Text Book (one)
2. Course Outline
3. Assignment No. 1, 2
4. Assignment Forms (2 sets)

In this packet, if you find anything missing out of the above mentioned material, please contact at the address given below:

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*(Department of Business Administration)*

**WARNING**

1. PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM AWARD OF DEGREE/CERTIFICATE, IF FOUND AT ANY STAGE.
2. SUBMITTING ASSIGNMENTS BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".

Course: Cost and Management Accounting (568/5538)  
Level: MBA

Semester: Spring, 2014  
Total Marks: 100  
Pass Marks: 40

**ASSIGNMENT No. 1**

- Q. 1 a) Define Cost Accounting and discuss its objectives?  
b) What is difference between cost accounting and financial accounting?
- Q. 2 Gomal Engineering Works on April 5, 19XX started production of 100 lawn mower of model EG-72 ordered by Capital Development Authority, Islamabad, vide order No.2119-M dated April 1, 19XX at a price of Rs.3,600 per lawn mower. Production Planning Department allotted job No. J-832-LM and instructed the factory to complete production by April 20, 19XX. However, the factory completed production on April 18, 19XX.  
On April 11, weekly Material Requisitions Summary No. MRS-16 and weekly Labor Cost Analysis ASheet No LAS-16 showed following charges to job No. J-832-LM.

	Department 101	Department 111
Direct materials	Rs. 58,500	Rs. 11,700
Direct labor	Rs. 13,500	Rs. 15,750 (900 hours)

Material Requisitions Summary No. MRS-17 and Labor Cost Analysis Sheet No LAS-17 prepared on April 18 revealed following direct costs for the job.

	Department 101	Department 111
Direct materials	Rs. 71,500	Rs. 14,300
Direct labor	Rs. 16,500	Rs. 19,250 (1100 hours)

In department 101 factory overhead is applied @ 50% of direct labor cost and in department 111 @ Rs. 12 per direct labor hour. Marketing and administration expenses chargeable to the job were respectively 7.5% and 5% of the sales price. The lawn mowers were delivered to customer on April 22, 19XX.

**Required:** Prepare a job cost sheet for job No. J-832-LM?

Q. 3 a) Castleton company has analyzed the costs of producing and selling 5,000 units of its sole product to be sold as follows:

Direct materials .....	Rs. 60,000
Direct labor.....	40,000
Variable factory overhead .....	20,000
Fixed factory overhead.....	30,000
Variable marketing and administrative expenses .....	10,000
Fixed marketing and administrative expenses.....	15,000

**Required:**

- i) Compute the number of units to break even at a per unit sales price of Rs.38.50
- ii) Determine the number of units that must be sold to produce an Rs.18,000 profit at a Rs.40 per unit sales price
- iii) Determine the price castleton must charge at a 5000 unit sales level, in order to get a profit equal to 20% of sales.

b) Make a comparative study of process costing and job order costing?

Q. 4 Mat Company's purchases of materials during March totaled Rs. 110,000, and the cost of goods sold for March was Rs. 345,000. Factory overhead was 50% of direct labor cost. Other information pertaining to Mat Company's inventories and production for March is as follows:

Inventories	Beginning	Ending
Finished goods	Rs. 102,0000	Rs. 105,000
Work in process	40,000	36,000
Materials	20,000	26,000

**Required:**

- i) Prepare a schedule of cost of goods manufactured for March.
- ii) Compute prime cost charged to work in process during March.
- iii) Compute conversion cost charged to work in process during March.

Q. 5 a) The Neely Bar Company has been buying a given item in lots of 1,200 units which is a six month supply. The cost per unit is Rs.12.00, ordering cost is Rs.8.00 per order and carrying cost is 25%.

How much can the company save per year by buying in the most economical lots?

b) Study of Factory overhead variance is helpful for decision making. Comment on the statement.

**GUIDELINES FOR ASSIGNMENT No. 1**

The student should look upon the assignments as a test of knowledge, management skills, and communication skills. When you write an assignment answer, you are indicating your knowledge to the teacher:

- Your level of understanding of the subject;
- How clearly you think?
- How well you can reflect on your knowledge & experience?

- How well you can use your knowledge in solving problems, explaining situations, and describing organizations and management?
- How professional you are, and how much care and attention you give to what you do?

To answer a question effectively, address the question directly, bring important related issues into the discussion, refer to sources, and indicate how principles from the course materials apply. The student must also be able to identify important problems and implications arising from the answer.

For citing references, writing bibliographies, and formatting the assignment, APA format should be followed.

## **ASSIGNMENT No. 2**

**Total Marks: 100**

**Pass Marks: 40**

This assignment is a research-oriented activity. You are required to obtain information from a business/commercial organization and prepare a report of about 1000 words on the issue allotted to you to be submitted to your teacher for evaluation.

You are required to select one of the following issues according to the last digit of your roll number. For example, if your roll number is P-3427180 then you will select issue # 0 (the last digit): -

### **ISSUES:**

1. Treatment of losses in Process Costing
2. Material ----- Costing and Quantitative Tools of Inventory Management
3. Application of Labor Plans and Incentive Schemes
4. Rationale for Factory Overhead Departmentalization
5. Use of Budgeting Techniques and Types
6. Impact of Factory Overhead Variance Analysis
7. Mechanism of Batch Costing
8. Benefits of Contract Costing
9. Use of Standards and Budget
0. Cost Accounting in a Service Organization

### **The report should follow the following format:**

1. Title page
2. Acknowledgements
3. An abstract (one page summary of the paper)
4. Table of contents
5. Introduction to the issue (brief history & significance of issue assigned)
6. Practical study of the organization (with respect to the issue)
7. Data collection methods
8. SWOT analysis (strengths, weaknesses, opportunities & threats) relevant to the issue assigned
9. Conclusion (one page brief covering important aspects of your report)

10. Recommendations (specific recommendations relevant to issue assigned)
11. References (as per APA format)
12. Annexes (if any)

**GUIDELINES FOR ASSIGNMENT No. 2:**

- 1.5 line spacing
- Use headers and subheads throughout all sections
- Organization of ideas
- Writing skills (spelling, grammar, punctuation)
- Professionalism (readability and general appearance)
- Do more than repeat the text
- Express a point of view and defend it.

**WORKSHOPS:**

The workshop presentations provide students opportunity to express their communication skills, knowledge & understanding of concepts learned during practical study assigned in assignment # 2.

You should use transparencies and any other material for effective presentation. The transparencies are not the presentation, but only a tool; the presentation is the combination of the transparencies and your speech. Workshop presentation transparencies should only be in typed format.

**The transparencies should follow the following format:**

- 1) Title page
- 2) An abstract (one page summary of the paper)
- 3) Introduction to the issue (brief history & significance of issue assigned)
- 4) Practical study of the organization (with respect to the issue)
- 5) Data collection methods
- 6) SWOT analysis (strengths, weaknesses, opportunities & threats) relevant to the issue assigned
- 7) Conclusion (one page brief covering important aspects of your report)
- 8) Recommendations (specific recommendations relevant to issue assigned)

**GUIDELINES FOR WORKSHOP PRESENTATION:**

- Make eye contact and react to the audience. Don't read from the transparencies or from report, and don't look too much at the transparencies (occasional glances are acceptable to help in recalling the topic to cover).
- A 15-minute presentation can be practiced several times in advance, so do that until you are confident enough. Some people also use a mirror when rehearsing as a substitute for an audience.

**WEIGHTAGE OF THEORY & PRACTICAL ASPECTS IN ASSIGNMENT # 2 & WORKSHOP PRESENTATIONS:**

Assignment # 2 & workshop presentations are evaluated on the basis of theory & its applicability. The weightage of each aspect would be:

Theory:	60%
Applicability (practical study of the organization):	40%

# **COST AND MANAGEMENT ACCOUNTING**

## **Course Outline (MBA-568/5538)**

### **Unit-1 The Conceptual Framework**

- 1.1 The Concept of Cost Management
- 1.2 The Organizational Chart, Planning and control
- 1.3 The Scope of Cost Accounting
- 1.4 Distinction between Cost & Mgt Accounting with Financial Accounting
- 1.5 Uses of Cost Accounting Data
- 1.6 The Flow of Costs
- 1.7 Cost Accounting Principles and Practices

### **Unit-2 The Cost Accounting Systems**

- 2.1 The Basics of Cost Accounting Information System
- 2.2 The Manufacturing Cost Accounting Cycle
- 2.3 Cost of Goods Manufactured Statement
- 2.4 Job Order Cost Accumulation Procedures
- 2.5 Process Costing
- 2.6 The Cost of Production Report
- 2.7 Difficulties Encountered in Process Costing

### **Unit-3 Material and Labor Costing**

- 3.1 Material Procurement and Use
- 3.2 Material Costing Methods
- 3.3 Economic Order Quantity
- 3.4 Material Controls
- 3.5 Basics of Labor Cost Control
- 3.6 Labor Performance Reports
- 3.7 Recording Labor Costs
- 3.8 Incentive Wage Plans

### **Unit-4 Planning and Control of Factory Overhead**

- 4.1 Factory Overhead (Pre-Determined Rate, Applied & Actual)
- 4.2 FOH Variance Analysis
- 4.3 The Concept of Departmentalization
- 4.4 Departmental Overhead Rates and Variances
- 4.5 Overhead Departmentalization in Non-Manufacturing Business

**Unit-5 Cost Behavior – Analysis and Use**

- 5.1 Cost Behavior Patterns
- 5.2 Variable Costs – Its Implications
- 5.3 Fixed Costs and Relevant Range
- 5.4 The Contribution Format
- 5.5 Cost Volume Profit Relationships
- 5.6 Cost Structure
- 5.7 Applications of (cost Volume Profit)CVP Concept
- 5.8 Break Even Analysis
- 5.9 The Margin of Safety

**Unit-6 Budgeting**

- 6.1 The Basic Framework of Budgeting
- 6.2 Difference between Planning and Control
- 6.3 Definition, Advantages of Budgets
- 6.4 Principles of Budgeting
- 6.5 The Budget Committee
- 6.6 The Master Budget – A Network of Inter-relationship
- 6.7 Sales, Production and Cash Budgets
- 6.8 Zero-based Budgeting
- 6.9 Projected Financial Statements
- 6.10 The concept of Flexible Budget – Different Dimensions

**Unit-7 Control through Standard Costs**

- 7.1 Standard Cost Defined
- 7.2 Comparison of Budgets and Standards
- 7.3 Setting Standards – Ideal Versus Practical Standards
- 7.4 Variances, Calculation and Analysis
- 7.5 Responsibility and Control of Variances

**Unit-8 Costs in Decision Making**

- 8.1 The Absorption Vs Direct costing
- 8.2 Fixed Overhead and Absorption Cost of Product
- 8.3 Reconciliation of Direct Costing and Absorption Costing
- 8.4 The Contribution Approach
- 8.5 Cost Concepts for Decision Making
- 8.6 Identifying Relevant Costs
- 8.7 Make Versus Buy Decision
- 8.8 The Opportunity Costs

**Unit-9 Activity Based Costing (ABC)**

- 9.1 Limitations of Traditional Costing Systems
- 9.2 ABC Process
- 9.3 Activity Identification and Classification
- 9.4 Assigning Costs to Activities and Products
- 9.5 Comparison of ABC with Traditional Costing Systems

***Recommended Books:***

	<b>Title</b>	<b>Author</b>	<b>Publisher</b>
1.	Cost Accounting Planning and Control	Matz – Usury (Latest Edition)	National Book Foundation, Islamabad.
2.	Managerial Accounting (5 <sup>th</sup> Edition)	Ray H. Garrison	Irvine, USA.
3.	Cost Management Accounting and Control	Hansen & Mowen	

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