

SANGHAMAM COLLEGE OF ARTS AND SCIENCE- ANNAMANGALAM.

MANAGEMENT ACCOUNTING

II BBA (SEMESTER IV)

UNIT-I

MARGINAL COSTING AND PROFIT PLANNING.

Margianl costing and profit planning – profit planning in different alternatives of sales mix – simple problem on extension of marginal costing techniques.

MARGINAL COSTING.

Marginal costs include more than just the cost of materials.

- ☐ The marginal cost of production includes everything that varies with the increased level of production.
- ☐ For example, if you need to rent or purchases a larger warehouse, how much you spend to do so is a marginal cost.

PROFIT PLANNING.

- ☐ It is calculated by dividing the variable costs by the number of units produced.
- ☐ Set a selling price that is higher than your marginal costs per unit.
- ☐ The selling price should be high enough to cover the variable costs and fied costs, and to generate a profit.

SALES MIX.

- ☐ Sales mix percentage is the number of one product's sales divided by the number of total products sold.
- ☐ There are two sales mix percentages to be aware of : projected and current.
- ☐ Projected sales mix percentages are based on the time period of the last time sales mix was calculated.

MARGINAL COSTING TECHNIQUES.

Break even analysis: break even analysis is made up of two words. (1) break-even, and (2) analysis. For any business, break-even point means that position of production and sales when the business has neither profit nor loss. When this position is estimated and put before the management for decisions etc..,

This process is known as break-even analysis, the position is analyzed on the basic of following points:

1. Contribution.
2. Profit volume ratio
3. Break-even point
4. Margin of safety

UNIT –II

CURRENT ASSETS MANAGEMENT.

Working capital – types – factors determining working capital – estimate of working capital requirements – inventory valuation –various methods of inventory valuation – simple problems on inventory valuation.

WORKING CAPITAL.

- ☐ Working capital is a financial metric that is the difference between a company's current assets and current liabilities.
- ☐ As a financial metric, working capital helps plan for future needs and ensure the company has enough cash and cash equivalents meet short-term obligations, such as unpaid taxes and short-term debt.
- ☐ For example, say a company has \$100,000 of current assets and \$30,000 of current liabilities.
- ☐ The company is therefore said to have \$70,000 at its disposal in the short term if it needs to raise money for a specific reason.

TYPES.

1. Gross and net working capital. Gross working capital amounts to be the business investment allocated for current assets.
2. Temporary working capital.
3. Negative working capital.
4. Reserve working capital.
5. Regular working capital.
6. Seasonal working capital.
7. Special working capital.

1. Gross working capital.

- ☐ The current assets of the company's balance sheet represents the gross working capital of the company.

2. Networking capital.

- ☐ Networking capital is called simply as working capital.
- ☐ It calculated as current assets and current liabilities.

3. Permanent/fixed working capital.

- It is the level of below which the net working capital has never gone. It is further divided into regular working capital and reverse working capital.

4. Temporary/variable working capital.

- Net working capital- permanent working capital.
- It is further divided into seasonal working capital and special working capital.

FACTORS DETERMINING WORKING CAPITAL.

1. Business size.
2. Production period.
3. Sales.
4. Scope of activities.
5. Inventory management.
6. Business commercial.
 - To calculate the firm's working capital, one needs from the current assets from the current liabilities. So, in simple terms, we can say that "net working capital = current assets – current liabilities."

ESTIMATE OF WORKING CAPITAL REQUIREMENTS

Working capital requirement (WCR) is the amount of money that a company needs to run its business operations smoothly.

It is calculated by subtracting the current liabilities (such as accounts payable, wages, taxes, etc.) from the current assets (such as cash, inventory, accounts receivable, etc.).

INVENTORY VALUATION.

Inventory valuation is an accounting practice that is followed by companies to find out the value of unsold inventory stock at the time they are preparing their financial statements.

Inventory stock is an asset for an organization, and to record it in the balance sheet, it needs to have a financial value.

VARIOUS METHODS OF INVENTORY VALUATION.

1. FIFO.
2. LIFO.
3. Specific identification.
4. Weighted average cost.
5. Weighted average example.
6. Inventory management.
7. WAC.
8. Alternative inventory costing methods.
9. Estimated cost inventory valuation.

1. FIFO.

First in, first out, commonly known as FIFO, is an asset-management and valuation method in which assets produced or acquired first are sold, used, or disposed first.

For tax purposes, FIFO assumes that assets with the oldest costs are included in the income statement's cost of goods sold (COGS).

2. LIFO.

Last in, first out (LIFO) is a method used to account for inventory.

Under LIFO, the costs of the most recent products purchased (or produced) are the first to be expensed.

LIFO is used only in the United States and is permitted under generally accepted accounting principles. (GAAP).

3. SPECIFIC IDENTIFICATION.

The specific identification method relates to inventory valuation, specifically keeping track of each specific item in inventory and assigning costs individually instead of grouping items together.

It is useful and usable when a company is able to identify, mark, and track each item or unit in its inventory.

4. WEIGHTED AVERAGE COST.

To use the weighted average model, one divides the costs of the goods that are available for sale by the number of those units still on the shelf.

This calculation yields the weighted average cost per unit – a figure that can then be used to assign a cost to both ending inventory and the cost of goods sold.

5. WEIGHTED AVERAGE EXAMPLE.

Weighted average cost is the average cost of each piece of available inventory.

For example, if a brand spent \$3,000 to make or procure every item in their available inventory, and they have a total of 150 units their inventory, the weighted average cost of each unit would be \$3,000 divided by 150, or \$ 20.

6. INVENTORY MANAGEMENT.

Inventory or stock refers to the goods and materials that a business holds for the ultimate goal of resale, production or utilisation.

Inventory management is a discipline primarily about specifying the shape and placement of stocked goods. UNIT -III STANDARD COSTING AND VARIANCE ANALYSIS –I

STANDARD COSTING.

Standard costing is the practice of estimating expenses in the production process since manufacturers cannot predict actual costs in advance.

Manufacturers use this methodology to plan upcoming costs of various expenses, such as labour, materials, production and overhead.

VARIANCE ANALYSIS TECHNIQUES.

Variance analysis is a method of assessing the difference between estimated budgets and actual numbers.

It's a quantitative method that helps to maintain better control over a business.

COST VARIANCE ANALYSIS.

Cost variance analysis is an accounting tool that investigates budgeting irregularities.

It involves determining the difference between allocated funds and actual money spent, then researching and reporting the cause of the difference.

Cost variance is the difference between the planned cost of a project and its actual cost after accounting for any extra expenses or unexpected savings.

The formula for calculating cost variance is : $\text{projected cost} - \text{actual cost} = \text{cost variance}$.

MATERIAL VARIANCES.

These arise from the difference between actual costs of materials used in production and standard costs of materials specified for the goods produced.

This comes into play because of the difference in quantities consumed and quantity initially allocated for production.

The materials cost variance formula is

Price variance + quantity variance.

Price variance is found with the formula $(AQ * AP) - (AQ * SP)$.

Quantity variance is found with the formula $(AQ * SP) - (SQ * SP)$.

LABOUR VARIANCES.

Labour variance focuses specifically on working rates given the actual amount of hours worked and is calculated with the following formula: $(\text{actual hours} \times \text{actual rate}) - (\text{actual hours} \times \text{standard rate})$.

Actual hours are the number of hours that employees have worked.

OVERHEAD VARIANCES.

Overhead variances are the difference between the actual and budgeted amounts of overhead costs that are allocated to products or services.

They can indicate how well a company is managing its resources, controlling its costs, and pricing its products or services.

Variable overhead cost variance =(actual cost – standard cost) X actual quantity.

UNIT –IV

STANDARD COSTING AND VARIANCE ANALYSIS – II.

Sales variance – profit analysis – reconciliation of actual profit and standard profit - simple problems on sales variances.

SALES VARIANCES.

Sales variance is the difference between actual sales and budgeted sales.

It is used to measure the performance of a sales function, and/or analyze business results to better understand market conditions.

The formula looks like this : number of units sold X period of time = sales volume.

To calculate sales volume variance, subtract your predicted sales in your sales forecast from your actual sales for a reporting period.

PROFIT ANALYSIS.

Therefore, profitability analysis refers to the process of calculating or analyzing the profits of a business.

It helps business identify their revenue streams and where they can reduce their expenses to generate maximum gains.

The key CVP formula is as follows : profit = revenue – costs.

Of course, to be able to apply this formula, you need to know how to work out your revenue : (retail price X number of units). Plus, you need to know how to work out your costs: fixed costs + (unit variable cost X number of units).

RECONCILIATION OF ACTUAL PROFIT AND STANDARD PROFIT.

A reconciliation of budgeted and actual profit can be shown by adding the positive production and sales variances and by deducting the negative variances from the budgeted profit.

Reconciliation of statement: when reconciliation is attempted by preparing a reconciliation statement, profit shown by one set of accounts is taken as base

profit and items of difference are either added to it or deducted from it to arrive at the figure of profit shown by other set of accounts..

UNIT –V ACTIVITY BASED COSTING AND BALANCE SCORE CARD.

Activity based costing – techniques – cost pool and cost driver – simple problems on activity based costing balance score card – strategic issue.

ACTIVITY BASED COSTING.

Activity based costing (ABC) is a costing method that identifies activities in an organization and assigns the cost of each activity to all products and services according to the actual consumption by each.

Therefore, this model assigns more indirect costs (overhead) into direct costs compared to conventional costing.

TECHNIQUES.

Activity based costing (ABC) is a method of assigning overhead and indirect costs- such as salaries and utilities to products and services. The ABC system of cost accounting is based on activities, which are considered any event, unit of work, or task with a specific goal.

COST POOL.

An activity cost pool is an aggregate of all the costs associated with performing a particular business task, such as making a particular product. By pooling all costs incurred in a particular task, it is simpler to get an accurate estimate of the cost of that task.

COST DRIVER.

In ABC, an activity cost driver influences the cost of labour, maintenance, or other variable costs. Cost drivers are essential in ABC, a branch of managerial accounting that allocates the indirect costs, or overheads, of an activity. There may be multiple cost drivers associated with an activity.

BALANCE SCORE CARD.

The balanced scorecard involves measuring four main aspects of a business: Learning and growth, business processes, customers, and finance. BSCs allow companies to pool information in a single report, to provide information into services and quality in addition to financial performance, and to help improve efficiencies.

STRATEGIC ISSUE.

One of the main challenges of using ANC for cost classification is that it can be complex and costly to implement and maintain. ABC requires identifying and measuring the activities and cost drivers that consume resources, and collecting and analyzing data on the usage of those resources by the products or services.