

Cost Management

MBS 4th Semester

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D R E A M L A N D P U B L I C A T I O N

Cost Management

MBS Fourth Semester

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We would very much appreciate and sincerely acknowledge the suggestions and recommendations from academic colleagues and readers for addition to come. We will be happy to acknowledge the support of all the students, faculty members and all those who use this book.

Binod Shah
Bhoj Raj Ojha
Sailendra Kumar Basnet
March, 2019

PREFACE

Cost management is a unique discipline that is constantly responding to the needs of managers in a highly competitive and global business world. While the primary use of cost management is to determine produce costs for internal management and external financial reporting, managers also need cost management information to develop, implement and evaluate strategy.

We take it as a matter of pleasure for us to bring this book entitled "**Cost Management**" to our valuable readers. This book has been written basically to meet the requirements of the students of Master in Business Studies (MBS) fourth semester as prescribed by Tribhuvan University. It has been prepared with utmost considerations of the issues that the faculty members and students are currently facing. This text book contains introduction to cost management, product costing system, activity based costing, customer profitability, process costing and cost allocation, financial and cost volume profit models, cost management and decision making and strategic issue in making decisions.

Cost management has been written primarily for the students of fourth semester of master in business studies. However, It is equally useful to Master of Business Administration (MBA) and Bachelor of Business Administration (BBA) programs of various universities of Nepal. This text book may also be appropriate for any persons seeking the knowledge regarding cost management. We hope this book will be useful to the students, teachers and others who have keen interest to enrich their knowledge in cost accounting.

We have tried our level best to keep this book error free. However, we undertake full responsibility for the errors. We request all the students, teachers, readers and well-wishers to provide the constructive suggestions to improve the book for the next edition. Please feel free to email any one of us at

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Authors
March, 2019

SYLLABUS

ACC 673: Cost Management (MBS- Accountancy Specialization)

Credits: 3

Lecture Hours: 48

Course Objectives

This course aims to impart advanced knowledge of existing costing systems, their drawbacks and development of improved methods and techniques, so as to make costing systems, tools of strategic decision making.

Teaching Methodology and Pedagogy :

- Lecture
- Assignments
- Discussion and Presentation
- Project and case work
- Library and Internet

Marking Scheme :

- **Internal**
 - Assignment
 - Presentation
 - Project work
 - Case Studies
 - Mid Term Exam
 - Pre Board Exam
- **External**
 - Board Exam

Course Details

Unit 1: Introduction to Cost Management

LH3

- Concept, importance and characteristics of cost management
- Strategic role of cost management
- Cost management and Strategic decision making
- Formulation of strategic action plans
- Evaluation of plans and outcomes : benefit cost analysis and benefit and cost variance.

Unit 2 Product Costing System

LH 3

- Concept and types of cost
- Cost reported in financial statement : service, retail and manufacturing company.

Unit 3: Activity Based Costing : Activity Based Budgeting (ABB) and Capacity Utilization

LH 8

- Concept, advantages and limitations of activity based costing system, procedures of absorption of overhead cost under ABC, Estimation of costs of new products using ABC, Cost and benefit of using ABC
- Concept, importance and process of activity based budgeting (ABB), ABB and traditional budgeting, Behavioral dimension of budgeting
- Meaning of capacity, capacity utilization, managing capacity and excess capacity, Measuring for capacity management, Activity Based Reporting of unused resources.

Unit 4: Target Costing and Kaizen Costing

LH 6

- Concept, importance and process of Target Costing, Key principles of Target Costing, Implementation of Target Costing, Target Costing and ABC, Value engineering
- Concept and importance of Kaizen Costing, Kaizen standard, General Kaizen Costing and items specific for Kaizen Costing Similarities between Target costing and kaizen Costing.

Unit 5: Life Cycle Costing

LH 5

Concept and importance of Life Cycle Costing, Product Life Cycle, Pricing products using the Product Life Cycle, Product Life Cycle and ABC, Benefits of Life Cycle Costing, Life Cycle Budgeting.

Unit 6: Just in Time (JIT) Inventory Management

Concept and importance of Inventory management, Inventory related costs, Traditional approach to inventory management, Concept, objectives, importance and limitations of Just in Time JIT manufacturing, Implementing JIT manufacturing, JIT in non - manufacturing situations, Performance evaluation in traditional and JIT environment

Unit 7: Theory of Constraints (TOC)

LH 3

- Concept and importance TOC
- Steps in TOC for improving performance
- Internal and external constraints
- Accounting issues in TOC
- TOC and ABC

Unit 8: Total Quality Management (TQM)

LH 6

- Concept, features, importance and types of (TQM)
- Traditional approach to quality Vs TQM
- Critical success factors for TQM, Measuring and reporting quality costs
- TQM and productivity, TQM in service organization

Unit 9: Process Costing and Cost Allocation

LH 9

Concept, importance and characteristics Process Costing System, Assignment of costs to product Concept, importance and characteristic of Joint Process Costing, Estimation of profit from Joint Product, Reason for allocating Joint Costs, Joint Costs allocation methods : Net Realizable Method and Physical Measures Method, Accounting for By - Product.

Reference Books:


Bloch E. David Stoot N. C. and Lokins O. G., *Cost Management, A Strategic Emphasis* Tata Mcgraw Hill Co.

Hilton, R. W., Maher, M. W. and Selto, F. H. (2008), *Cost Management, Strategies for Business Decisions*, 4E, MC Graw Hill, Irwin



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Binod Shah, MBA, PhD, received his bachelor's degree from R.R.M. Campus, Janakpurdham, master's degree from Central Department of Management, Tribhuvan University, Nepal and doctorate in commerce from BRA, Bihar University, India. He received Master in Arts (Maithili) from Tribhuvan University. He has participated in Faculty Development Programme (FDP) at Indian Institute of Management, Ahemdabad (IIMA). He was the recipient of Nepal Bidhyabhusan Padak 'Ka' award from Ministry of Education, Government of Nepal. He has also received "Siksha Sewa Samman" award. He is an associate professor at Tribhuvan University. He has more than two decades experience of teaching accounting in bachelor and master level courses in Tribhuvan University. He has authored popular text books of accounting for bachelor and master level courses. He has published dozens of articles in various research journals of Nepal and India.



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