

ACCA

COMBINED
STUDY AND REVISION
MANUAL

COSTING

Paper 1.2.



D. P. PUBLICATIONS

DP Publications Limited

ERRATA

ACCA

COMBINED

STUDY AND REVISION

MANUAL

COSTING

Paper 1.2

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STUDY AND REVISION MANUAL

Preface

AIMS OF THE MANUAL

1. This manual is designed to provide full coverage of the ACCA Costing syllabus and contains, *within the one volume*, all the material necessary for both *study* and *revision* purposes. The student who conscientiously works through the whole book, either by self study or as part of a course, will gain a thorough understanding of the theory and practice of cost accountancy and will be in an excellent position to achieve a first time pass in the Level 1.2 Costing paper.

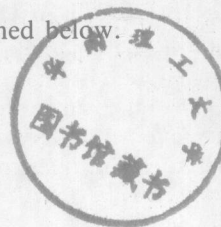
LAYOUT AND SCOPE OF THE MANUAL

2. The manual is divided into three main sections as outlined below.

SECTION 1

Main Contents:

ACCA Level 1.2 Costing Syllabus and commentary
ACCA Level 1.2 Costing Question Analysis by topic



SECTION 2

Main Contents:

This is the STUDY section of the manual, the core of the whole book, and consists of:

- study hints
- self contained chapters with numbered paragraphs, practical examples, diagrams, tables
- end of chapter summaries
- self review questions cross referenced to appropriate paragraphs
- test exercises (with answers in section 4)
- past ACCA examination questions (with answers in section 4)

SECTION 3

Main Contents:

The REVISION section of the manual consisting of:

- Revision check lists of essential knowledge by topic area
- Summaries of essential formulae
- Mock examination paper using past ACCA questions
- Revision and examination technique hints

SECTION 4

Main Contents:

- Full answers to ALL end of chapter exercises and questions
- Full answers to mock examination paper and commentary

SECTION 5

Main Contents:

- selection of questions without answers



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HOW TO USE THE MANUAL EFFECTIVELY

3. After gaining an initial familiarity with Section 1 of the manual, students are recommended to get into the habit of making continual references to the syllabuses and question analysis so that they become fully aware of ACCA requirements.

The study hints, which are at the beginning of the STUDY section of the manual, should be absorbed before commencing the detailed reading of the various chapters. The chapters should be studied in sequence because they have been arranged so that there is a progressive accumulation of knowledge and any given chapter either includes all the necessary principles or draws upon previous chapters. Each chapter is followed by *self review* questions which you should attempt to answer *unaided* then check your answer with the text. In addition each chapter has a number of text exercises and past ACCA examination questions. The test exercises are usually shorter and simpler than the examination questions and will be found useful for practice and consolidation. *Always* make an attempt at the exercise or examination question before reading the solutions, which are at the back of the manual. This is considered an essential part of the learning process which greatly assists genuine understanding.

When the STUDY section has been thoroughly assimilated, Section 3 of the manual can be used as the basis of a planned, thorough revision programme. Within a topic area, the check lists of essential information and concepts should be thought of as the *minimum* necessary for examination success. Do not simply read through the check list and assume you know the item or principle involved. If the check list says you should be able to define, say, marginal cost — *write your definition down* — and subsequently check this in the study section.

Do not skip any part of your study or revision programme.

SPECIAL NOTES FOR LECTURERS

4. When the manual is used as a course text, lecturers require a selection of exercises and examination questions *without answers* which can be used for class and home work or for assignments. Accordingly, a selection of exercises and examination questions, over and above those provided for the student analysed by topic, is given at the end of the manual. So that lecturers can demonstrate different viewpoints and approaches the questions have been drawn from a variety of professional bodies, including; ICMA ACCA, CIPFA, AAT etc. A separate answer guide, is available free to lecturers who adopt the manual as a course text.

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Section 1

ACCA 1.2 COSTING SYLLABUS

SYLLABUS COMMENTARY

ACCA PAST QUESTION ANALYSIS

ACCA LEVEL 1.2 – COSTING SYLLABUS

Aim

To examine:

- knowledge of costing principles, methods and techniques;
- ability to apply these principles, methods and techniques to a variety of businesses and situations.

CONTENT

A Introduction to Cost and Management Accounting

Weighting 15%

The functions of cost and management accounting; the role of cost accounting in decision making — planning and control; the link with financial accounting. Cost accounting as part of a management information system; design, installation and operation of costing systems; cost units and cost centres; organisation of the costing department.

Elements of cost; cost classification; direct and indirect costs, fixed and variable costs; classification of costs by nature and function; cost behaviour patterns — linear and step-functions ; costing terminology.

B Costing Systems and Cost Determination

Weighting 20%

Materials; store-keeping and stock control; perpetual inventory systems — procedures documentation (including purchasing routines;) pricing material issues; stocktaking and valuation of stock.

Labour: remuneration methods (including their effect on product costs); payroll procedures; labour analysis; idle time (including measures of labour efficiency and productivity, together with analyses of all forms of non-productive time and their cost).

Overheads: nature, classification and collection of overheads; purpose and mechanics of overhead allocation; apportionment (including the purpose and techniques of service department apportionment); methods of overhead absorption; treatment of under and over-absorption (a critical awareness of the strengths and weaknesses of overhead absorption compared to marginal costing techniques is also required).

(Candidates should also be aware of the contribution made by the costing function to controlling each of the above three cost elements. This clearly has close links with Section D — budgeting).

Cost book-keeping

C Costing Methods and Techniques

Weighting 30%

The ascertainment of costs (including treatment of the cost of waste/scrap/rectification in job and process costing systems). Job and batch costing; characteristics of job-order costing; procedures and documentation; batch costing; cost ledgers; reconciliation of cost and financial ledgers; integrated accounts.

Contract costing; applications and the identification of cost units; special considerations relating to plant hire, sub-contracted work, architects' certificates and retention monies; profit on uncompleted contracts; ledger entries.

Process costing; applications and the identification of cost units (including the techniques for determining the cost of joint and by-products and an elementary interpretation of such costs in decision-making); special features; the valuation of interprocess transfers and work-in-progress using equivalent-production based on FIFO and averaging; ledger entries.

Operation/service costing; applications and the identification of costs units; special considerations relating to the collection, classification and ascertainment of costs; cost sheets.

D Introduction to Budgeting and Budgetary Control

Weighting 20%

Nature of budgets and the functions of budgetary control (including the purpose of budgeting, the nature of the control process and a consequent outline appreciation of the elementary principles and process of flexible budgeting). Organisation: budget centres; budget periods; budget committee; budget officer; budget manual.

Formulation and establishment of budgets (including the problems of constructing such budgets); key factor considerations; the preparation of master, functional and cash budgets.

The application of standard costing (including the problems of establishing standard costs); purposes of standard costing; operating standards; procedures and documentation; the causes, interrelationship and calculation of standard absorption cost variances; variance analysis statements; ledger entries. (Variance analysis will be restricted to the basic quantity/efficiency/price variances for each cost element; with the addition of an occasional simple 'simple purpose' variance e.g. power failure/strike, etc., in order to test understanding/application of principles as distinct from reliance upon memorising standard formulae.)

(Candidates also should be able to produce a simple reconciliation of budget and actual profit. Naturally, this will involve an elementary appreciation of the impact on profit of changes in sales volume and changes in selling price; however, this would only be required in the context of simple reconciliation statements.)

(Candidates are also expected to use the concept of the 'standard hour' developed within this Section to calculate and understand the meaning of such measures as productivity, capacity and production volume ratios.)

E Costs for Decision-Making

Weighting 15%

The application of marginal costing: contribution concepts; the construction of linear break-even charts including the effects of changes in selling prices and costs (including a thorough understanding of the weaknesses and assumptions built into such charts; candidates are also expected to construct simple profit/volume charts); measures of activity; the use of cost volume profit analysis in single product pricing and output decisions; income statements; valuation of stock and work-in-progress (including an understanding of the benefits and problems of marginal costing compared with absorption costing).

(Candidates are expected to be able to differentiate, in simple situations, between the effects on costs/contribution of alternative courses of action, e.g. (i) recognise and distinguish between sunk and relevant costs; (ii) distinguish between specific and general fixed overheads; (iii) recognise and understand the implications of an opportunity cost, including its use in simple limited resource situations.)

SYLLABUS COMMENTARY

You will see that the syllabus is divided into five main sections with a specified weighting. The syllabus is a broad one and, in addition to the subject matter, I would draw your attention to the helpful comments in brackets at the end of some of the sections. These comments provide excellent guidance to the thinking behind the syllabus and are clear pointers to the type of questions that have been set. As an example the two comments at the end of Section D — the reconciliation of budget and actual profit and measures of productivity and capacity — have both been the subject of past examination questions.

A feature of the syllabus, which is reflected in the questions set, is the genuine attempt to develop a questioning critical attitude to cost accounting together with a knowledge of the weaknesses and assumptions behind a number of costing methods and principles. An example is the comment in Section D on variance analysis where the syllabus states that the objective is to test understanding and the application of principles rather than the mechanical use of standard formulae. This is a point which is stressed repeatedly in the Manual and you must try to develop this attitude in your studies. Continually ask why is it done this way? Could it be done differently and better? What are the problems with the conventional approach?

Looking at the question analysis you will see that, over a period, *all* sections of the syllabus are covered — broadly in accordance with the weightings given. The important conclusion to be drawn from this is that there is the need to prepare widely across the whole syllabus. It is not sufficient simply to select two or three topics as 'bankers' — you could be unlucky!

The question papers have followed a standard pattern for some years now in being divided into two sections. In Section A you are required to answer three questions out of four, each of 22 marks. In Section B you have to answer two questions out of three for 17 marks each. Generally, but not exclusively, those in Section B are discussion-type questions. The questions in Section A are longer and always contain two, three or more parts. Some of the parts require numerical calculations or book-keeping entries but invariably you have to comment on the results of your calculations. This emphasises the point made earlier — what is being tested is not merely whether you can calculate, say, an overhead absorption rate but also whether you know what such a rate means and the effect of under or over absorption of overheads on profitability.

Although the syllabus is divided into various sections and topics you must not assume that examination questions — and real-life problems — will also naturally fall into water-tight compartments. Many questions span several areas of the syllabus and this makes them even more testing and, it must be said, more realistic. As an example, a recent question involved materials issue pricing and stock valuation, labour cost analysis and the preparation of journal entries for the cost accounts.

A final point regarding the syllabus and your preparation for the examination is that the costing syllabus should be seen not only as an end in itself but, equally important, as basic preparation and background for the Management Accounting examination in Level 2.

ACCA QUESTION ANALYSIS

An analysis of the question papers set in Level 1 Costing examinations for the last 10 examination diets.

Examination Date	Materials, issues pricing material and stock control	Labour wages and incentive schemes	Overhead, analysis and absorption	Cost Accounts and book-keeping	Job and Contract Costing	Process Costing	Cost classification and behaviour	Decision making & C/V/P analysis	Cash Budgets	Budgeting (Fixed and Flexible budgets)	Standard Costing and Variance analysis	General Costing
June 1986	B		A(p)	A(p)		A	B(p)	A		A	B	
December 1985	A	B	B		A	A(p)		A		B	A(p)	
June 1985	B				B	A		A	B	A	A	
December 1984	B	A		A	B(p)	B(p)		A			A	B
June 1984	A	A			B	A		B		A		B
December 1983	B	B(p)	B		A	A	B(p)	A			A	
June 1983	A		A		B		B	A,B	A			
December 1982	A		A			A	B(p)	B	A			B,B(p)
June 1982	B	A	A			A		A			B	B
December 1981	A(p)	A(p)	A	A(p)		B		A		B	A	B

A = Question from Section A — 22 marks

B = Question from Section B — 17 marks

(p) = part question, ie question covers two or more topic areas.

You are required to:

(a) prepare profit statements for each of the months of March and April using:

- (i) marginal costing; and
- (ii) absorption costing;

(15 marks)

(b) present a reconciliation of the profit or loss figures given in your answers to (a) (i) and (a) (ii) accompanied by a brief explanation;

(5 marks)

(c) comment briefly on which costing principle, i.e. marginal or absorption, should be used for what purpose(s) and why, referring to any statutory or other mandatory constraints.

(5 marks)

(Total: 25 marks)

3. AB p.l.c., contractors and civil engineers, are building a new wing to a hospital. The quoted fixed price for the contract is £3 million. Work commenced on 7th January, 1985 and is expected to be completed on schedule by 30th June, 1986. The company's financial year ended on 31st March, 1986 and it is company policy to apply the requirements concerning long-term contracts which are contained in SSAP 9 on Stocks and Work-in-Progress.

Data relating to the contract at 31st March, 1986:

During the fifteen months to 31st March

	£000
Plant sent to site at commencement of contract	240
Hire of plant and equipment	77
Materials sent to site	662
Materials returned from site	47
Direct wages paid	960
Wage-related costs	132
Direct expenses incurred	34
Supervisory staff salaries - direct	90
- indirect	20
Regional office expenses apportioned to contract	50
Head office expenses apportioned to contract	30
Surveyors' fees	27
Progress payments received from Health Authority	1,800

The following points are also to be considered:

1. Plant is to be depreciated at the rate of 25% per annum, straight-line basis, with no residual value.
2. Unused materials on site at 31st March are estimated at £50,000.
3. Wages owed to direct workers total £40,000.
4. No profit in respect of this contract was included in the year ended 31st March, 1985.
5. Budgeted profit on the contract is £800,000.
6. Whilst the contract is expected to be completed by the scheduled date without encountering difficulties, it is obvious to the management that the budgeted profit will not be realised. However, to calculate the attributable profit to date you are to assume that further costs to completion will be £300,000.

You are required to:

(a) (i) prepare the account for the hospital contract for the fifteen months ended 31st March, 1986;

(12 marks)

(ii) show the work-in-progress valuation as it will appear in the company's balance sheet at 31st March;

(3 marks)

(iii) calculate the profit on the contract by one other method, taking a more prudent view than that advocated in SSAP 9 and assuming for this part of your answer that the cost of work not certified is £500,000 and that the invoice value of work certified is £2 million. (Show clearly any formulae you use and your workings.)

(6 marks)

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SECTION 2

THE STUDY MANUAL

Containing 27 chapters covering all aspects of the ACCA Level 1.2 COSTING Syllabus.



EXAMINATION AND STUDY TECHNIQUE

Examinations are important, but they should be the culmination of a period of carefully planned preparation not a frantic last minute attempt to digest sufficient information to scrape up just enough marks to pass. Why? Firstly, because poor preparation turns an examination into an ordeal and lack of confidence about your performance in one examination can affect your performance in other papers taken at the same sitting. Secondly, examinations in costing are set at an intermediate stage for most professional accounting bodies and require a sound knowledge and good technical ability as a basis for more advanced problems at higher levels.

For these reasons a thorough, planned study programme covering all relevant aspects of costing is vital both for the immediate target, i.e. your examination in costing, and as an essential element in achieving your longer term goal of becoming a qualified accountant.

HINTS ON HOW TO STUDY

1. SYLLABUS AND QUESTION ANALYSIS

Study thoroughly the syllabus in Section 1 of the manual and familiarise yourself with the pattern of questions set from the Question Analysis. Before studying a topic, for example labour costing, get into the habit of referring to the syllabus in order to refresh your memory regarding the exact requirements.

2. Allocating your Study Time

Begin by being realistic. Decide how many hours on which days of the week you will be able to study. Then consult your diary, or your memory if you don't keep a diary, and be ruthless in crossing out those hours when you watch a favourite TV programme, play sport, or relax in any way. Your studies should not become a burden or you are likely to tire quickly and start making excuses for not working.

An effective approach is to divide your study time into periods of 45 minutes to one hour, followed by a break. Where more than one subject is being studied concurrently, it is advisable to alternate between quantitative subjects such as costing and literary topics like law. This can also be done within a subject e.g. 45 minutes reading and note-making from your textbook - coffee break - attempt an exercise in the manual.

Once you have allocated a realistic period of time, you should refer to the syllabus and, leaving four clear weeks before the examination for revision purposes, divide the time into topics (reflecting syllabus weighting). This done you have to keep to your plan. If a particular interruption is likely then plan ahead and try to "earn" the time off in advance by foregoing a little of your other leisure time. The key to success is:

REGULAR AND SYSTEMATIC STUDY

3. Study and Learning

Study means "the systematic pursuit of understanding" and done effectively results in learning. But, if it is not done effectively then it is merely time wasted. Having allocated your study time, you must now ensure that it is used effectively by creating the right ambience - i.e. by approaching your study periods in the right frame of mind, equipped with the required "tools" and in an appropriate setting. The "right frame of mind" means in a positive manner aiming through a structured and systematic programme of work to develop understanding and, of course, to achieve high marks in your examination. Therefore, you must intend to concentrate on the subject not wonder about your friends' activities, what is on TV etc.

The "tools" for the job means your syllabus, your work programme, a pad, pens, pencils, your text book, your manual, calculator etc. The remaining factor is where you study. Few students will have a private office with adequate lighting, a large desk and soundproofed walls, but most can find a room which is reasonably quiet, warm and well-lit, with a table and chair. Once you have developed the art of study through regular practice, you will find that you can concentrate on trains, buses or in a room full of people. But, first develop the habit by making yourself comfortable.

4. SYSTEMATIC METHODS OF STUDY

Read a chapter in the manual quickly to give yourself a feel for the topic. Then read it again more slowly and make notes as you read. Later you can set yourself targets by trying to condense the important points in a chapter on a single sheet of paper. This will help you to identify the key words and phrases and provides a usefully brief set of notes for your eventual revision purposes.

Use the self review questions at the end of each chapter as a basis for your revision of the chapter and always make some attempt at the questions before checking back to the chapter. Similarly, always make some attempt at the end of chapter exercises and past examination questions. Just checking through the answers at the back of the manual without having made a genuine attempt yourself will not provide real understanding.

Remember:

- (a) Always make NOTES when reading
- (b) PRACTICE MAKES PERFECT
- (c) The most useful weapon you can possess is DETERMINATION TO SUCCEED
- (d) REVISION is a daily, weekly and monthly HABIT - always review what you have just done.

5. FINAL REVISION

Use Section 3 of the manual as the basis of your planned revision programme. By the end of your study and revision you should be able to answer *every* question in the manual which will mean that you have become familiar with the whole range of questions set in ACCA examinations.

6. THE EXAMINATION

Hints on Examination Technique are given in Section 3, the Revision Section of the manual, and you are strongly advised to study the hints as part of your revision programme.

At this stage the most important thing is to ensure that you enter for the examination at the earliest opportunity and obtain official confirmation of your acceptance. Do *not* leave this until the last minute.

The correct address is:

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1 What is Costing?

INTRODUCTION

1. This chapter provides some basic definitions, explains the purpose of cost accounting, its relationship to financial and management accountancy and provides an introduction to the whole manual.

COST ACCOUNTING - DEFINITION

2. "That part of management accounting which establishes budgets and standard costs and actual costs of operations, processes, departments or products and the analysis of variances, profitability or social use of funds." *Terminology.*

Detailed explanation of the principles, methods and techniques used in cost accounting form the basis of subsequent chapters in this manual.

DEVELOPMENT OF COST ACCOUNTING

3. Ever since the use of money replaced barter, people have been concerned with costs. However, it was the concentration of manufacturing facilities into factories which gave impetus to the development of recognisable costing systems. Whilst the early developments were almost entirely related to manufacturing concerns, nowadays costing is used very widely indeed; in hospitals, transport undertakings, local authorities, offices, banks as well as in every manufacturing concern.

THE SCOPE OF COST ACCOUNTING

4. The cost accounting system of any organisation is the foundation of the internal financial information system. Management need a variety of information to plan, to control and to make decisions. Information regarding the financial aspects of performance is provided by the costing system. Examples of the information provided by a typical costing system and how it is used are given in the following table and in the following paragraphs.

Information provided by Costing System

Cost per unit of production or service or for a process
Cost of running a section, department, or factory
Wage costs for a unit of production or per period of production
Scrap/Rectification costs
Cost behaviour with varying levels of activity

Possible uses by Management

As a factor in Pricing Decisions, Production Planning and Cost Control.
Organisational planning, cost control.
Production planning, decisions on alternative methods, wages cost control.
Material cost control, production planning.
Profit planning, make or buy decisions, cost control.

EXAMPLES OF COSTING INFORMATION AND USES Table 1

Note:

1. The examples given of uses are not mutually exclusive and it is common to find cost information being used for purposes other than those shown above.
2. The table provides a few examples only, in practice much more information is produced and used.
3. In most cases the usefulness of costing information is enhanced when the actual results and costs are compared to some target or standard figure.

COST ACCOUNTING AND CONTROL

5. An important part of the managerial task is to ensure that operations, departments, processes and costs are under control and that the organisation and its constituent parts are working efficiently towards agreed objectives. Although there are numerous other control systems within a typical organisation, for example, Product Control, Quality Control, and Inventory Control, the Cost Accounting system is the key financial control system and monitors the results of all activities and all other control systems. The detailed analysis and location of all expenditure, the calculation of job and product costs, the analysis of losses and scrap, the monitoring of labour and departmental efficiency and the other outputs of the Costing system provide a sound basis of information for financial control.

COST ACCOUNTING AND DECISION MAKING

6. Decision making is concerned with making a choice between alternatives and frequently an important factor in making that choice is the financial implications of the various alternatives.

Correctly presented cost information can be of great value to management in decision making and accordingly material on short and long term decision making is included later in the manual.

Note:

Students should be aware that much of decision making (and planning) is considered to be within the field of Management Accounting rather than Cost Accounting and accordingly, for greater depth and coverage of these topics, students are advised to refer to the author's manual '*Management Accounting*' D.P. Publications.

COST ACCOUNTING AND PLANNING

7. The analysis and recording of past costs and activities is but one element of cost accounting. Management are also concerned to know what costs will be in the future so that appropriate plans and decisions can be made in good time. Also, having some standard or target against which to compare actual costs greatly assists the control function. The future orientated aspects of cost accounting, namely budgeting and standard costing, are dealt with in Chapters 22 to 25.

COST ACCOUNTING, ESTIMATING AND PRICING

8. Pricing decisions are complex and many interacting factors need to be considered including, the type of market in which the firm operates, the degree of competition, demand and the elasticity of demand, the cost structure of the product and firm, the state of the economy and numerous other factors. Pricing is NOT simply a cost based decision although past costs and expected future costs are factors to be considered in pricing decisions.

COSTING MUST BE USEFUL

9. It cannot be emphasised too strongly that if the information produced by the costing system is not useful for managerial decision making, for control or for planning, then it has no value and should not be prepared. To ensure its usefulness the following factors should be considered:

- a. Is the costing system appropriate to the organisation and the manufacturing process?
- b. Do the reports, statements and analyses produced by the costing system contain the relevant information for the intended purpose?
- c. Are the reports and statements produced at appropriate intervals and early enough to be effective?
- d. Are they addressed to the person responsible for planning/decision making/control?
- e. Is the information produced in a relevant form and to a sufficient degree of accuracy for the intended purpose?

It follows from these factors that every costing system will, in certain respects, be unique, because it must be designed to suit the particular organisation, products and processes and personalities involved.

COSTING AND MANAGEMENT ACCOUNTING

10. The definition of management accounting is: "The provision of information required by management for such purposes as:

- a. formulation of policies,
- b. planning and controlling the activities of the enterprise,
- c. decision taking an alternative courses of action,

- d. disclosure to those external to the entity (shareholders and others),
- e. disclosure to employees,
- f. safeguarding assets.

The above involves participation in management to ensure that there is effective:

- a. formulation of plans to meet objectives (long term planning),
 - b. formulation of short term operation plans (budgeting/profit planning),
 - c. recording of actual transactions (financial accounting and cost accounting),
 - d. corrective action to bring future actual transactions into line (financial control),
 - e. obtaining and controlling finance (treasurership),
 - f. reviewing and reporting on systems and operations (internal audit, management audit)."
- Terminology.*

It will be seen that there are similarities between the objectives of both management and cost accounting and indeed in practice there is no true dividing line. In general, management accounting is wider in scope and uses more advanced techniques. However, a fundamental requirement for management accounting is the existence of a sound costing system to provide basic data. Without this, sophisticated techniques will be useless. Both management accounting and cost accounting are in the main concerned with the provision of information (often in great detail) for internal planning, control and decision making purposes with considerable emphasis on the costs of functions, activities, processes, and products.

COSTING AND FINANCIAL ACCOUNTING

11. Financial accounting can be defined as: "That part of accounting which covers the classification and recording of actual transactions of an entity in monetary terms in accordance with established concepts, principles, accounting standards and legal requirements and presents as accurate a view possible of the effect of those transactions over a period of time and at the end of that time."

Terminology.

Financial accounting originated to fulfill the stewardship function of businesses and this is still an important feature. Most of the external financial aspects of the organisation, e.g. dealing with Accounts Payable and Receivable, preparation of Final Accounts etc., are dealt with by the financial accounting system. Of course internal information is also prepared, but in general it can be said that financial accounting presents a broader, more overall view of the organisation with primary emphasis upon classification according to type of transaction (e.g. salaries, materials) rather than the cost and management accounting emphasis on functions, activities, products and processes and on internal planning and control information.

SUMMARY OF RELATIONSHIPS BETWEEN COST AND MANAGEMENT AND FINANCIAL ACCOUNTING

12. The objectives of the various facets of accounting have been given above and the differences discussed. However, it must be realised that they all form part of the financial information system of an organisation and in many organisations the various facets are totally integrated with no artificial divisions between them.

OVERVIEW OF COSTING

13. Having defined cost, management and financial accounting and discussed the relationships between them, it is now possible to show more detail of cost accounting. Figure 1 summarises the major parts of the cost accounting process and shows in diagrammatic form how data are transformed into information. The rest of the manual provides detailed explanations for each of the elements in the diagram.

SUMMARY

14. a. Cost accounting is concerned with the ascertainment and control of costs.
- b. The purpose of cost accounting is to provide detailed information for control, planning and decision making.
 - c. To be of use, costing information must be appropriate, relevant, timely, well presented and sufficiently accurate for the purpose intended.
 - d. Cost accounting and management accounting are closely related.