## **Contents**

About the Author Preface Chapter-heads	PAGE I-5 I-7 I-9
PART I : INTRODUCTION	
1 MANAGEMENT ACCOUNTING : AN OVERVIEW	
<ul> <li>Management Accounting</li> <li>Financial Accounting Information</li> <li>Techniques of Management Accounting</li> <li>Comparison of Financial and Management Accounting</li> <li>Cost Accounting and Management Accounting</li> <li>Decision Making Process and Accounting Information</li> <li>Two Basic Ideas in Management Accounting</li> <li>Information needed by Management Accountants</li> <li>Points to Remember</li> <li>Multiple Choice Questions</li> <li>Self Assessment</li> </ul>	4 4 5 5 6 7 8 8 8 9 9
PART II: USING FINANCIAL STATEMENTS	
2 STATEMENTS OF FINANCIAL INFORMATION	
<ul> <li>◆ Financial Statements</li> <li>◆ Balance Sheet (BS)</li> <li>◆ Income Statement (IS)</li> <li>◆ Statement of Appropriation of Profit</li> <li>◆ Statement of Change in Financial Position (SCFP)</li> <li>◆ Theoretical base of Preparation of Financial Statements</li> <li>◆ Concepts and Conventions of Accounting</li> <li>◆ Trial Balance: The starting point for the preparation of Financial Statements</li> <li>Points to Remember</li> <li>Graded Illustrations</li> <li>Multiple Choice Questions</li> <li>Self Assessment</li> </ul>	16 16 18 19 19 20 20 21 22 23 35 37
3 ANALYSIS OF FINANCIAL STATEMENTS	
<ul><li>♦ Analysis of Financial Statements (AFS)</li><li>♦ Objectives of the AFS</li></ul>	42 42

I-12 CONTENTS

	PAGE
◆ Methodical Presentation : A Convenient Pre-requisite to AFS	43
◆ Techniques/Tools of the AFS	43
◆ Comparative Financial Statements (CFS)	44
◆ Comparative Income Statement (CIS)	44
◆ Comparative Balance Sheet (CBS)	44
◆ Common Size Statement (CSS)	46
◆ Trend Percentage Analysis (TPA)	47
◆ Ratio Analysis (RA)	47
◆ Liquidity Ratios	49
◆ Activity Ratios	51
◆ Leverage Ratios	53
◆ Measures of the Degree of Indebtedness	54
◆ Measures of the Ability to Service Debts	55
◆ Profitability Ratios	56
◆ Profile of Profitability of a Firm : DU PONT Analysis	64
◆ Evaluation of Ratios Analysis (RA)	67
Points to Remember	68
Graded Illustrations	68
Multiple Choice Questions	87
Self Assessment	89
4 STATEMENT OF CHANGE IN FINANCIAL POSITION	
▲ Statement of Change in Financial Resition (SCER)	94
◆ Statement of Change in Financial Position (SCFP)  ◆ SCEP (Working Conital Position) Funds Flow Statement (FFS)	94
◆ SCFP (Working Capital Basis): Funds Flow Statement (FFS)  ◆ Proposition of the Funds Flow Statement (FFS)	94 96
◆ Preparation of the Funds Flow Statement (FFS)  ◆ Funds From Operations (FFO)	
<ul><li>◆ Funds From Operations (FFO)</li><li>◆ Calculation of FFO</li></ul>	98 99
◆ SCFP (Cash Basis): Cash Flow Statement  A Importance and Balayanae of the CFS	105 105
◆ Importance and Relevance of the CFS  ◆ Properties of CFS	
◆ Preparation of CFS  ◆ Preparation for Preparation of CFS	105
Basic Information for Preparation of CFS      Company of the Company of the CFS      Company of the CFS      Company of the CFS	109
◆ Step by Step Procedure to Prepare CFS  • Englished in a f SCEP.	109
◆ Evaluation of SCFP	111
Points to Remember  Graded Illustrations on Funds Flow Statement	111
	112
Graded Illustrations on Cash Flow Statement	125
Multiple Choice Questions Self Assessment	130 132
5 FINANCIAL PLANNING, FORECASTING AND EXTERNAL FUNDS REQUIREMENT	
◆ Financial Planning : A General View	136
◆ Long-term Financial Planning	136
◆ Short-Term Financial Planning	136
♦ Financial Forecasting	136
◆ Steps in Financial Planning	136
◆ Budgeting or Profit Planning	138
◆ Key Elements of a Comprehensive Budget	1.39

CONTENTS	I-13
----------	------

	PAGE
◆ The Capital Budget	139
◆ Operating Budgets	139
♦ Financial Budgets	139
◆ Cash Budget : A Tool of Cash Planning	139
◆ Projected Financial Statements : Tools of Profit Planning	140
◆ Projected Income Statement (PIS)	141
◆ Projected Balance Sheet (PBS)	142
• Evaluation of PFS	143
◆ External Funds Requirement	144
◆ Growth and External Financing Needed	145
◆ Profitability, DP Ratio and EFN	145
Points to Remember	146
Graded Illustrations	146
Multiple Choice Questions	156
Self Assessment	157
PART III: COST DATA BASE FOR MANAGEMENT ACCOUNTING	
6 COST: CONCEPTS, BEHAVIOUR AND ANALYSIS	
◆ Cost and Expense	164
◆ Cost Classification	165
◆ Cost Classification by Business Function	165
◆ Cost Classification for Planning and Control	168
◆ Cost Classification for Decision Making	171
◆ Cost Control and Cost Reduction	173
◆ Cost Sheet	173
◆ Cost Flow in Financial Statements	175
Points to Remember	176
Multiple Choice Questions	176
Self Assessment	180
7 JOB ORDER AND CONTRACT COSTING	
◆ Job Order Costing and Process Costing	182
◆ Job Order Costing and Frocess Costing  ◆ Job Order Costing Method	183
◆ Overhead Allocation Rates	185
◆ A General Model for the Product Cost Flows	186
◆ Contract Costing	187
◆ Cost Plus Contract	188
Points to Remember	191
Graded Illustrations	191
Multiple Choice Questions	204
Self Assessment	205
oet riscssmen	203
8 PROCESS COSTING	
◆ Process Costing	210
◆ Cost Flow in Process Costing	211

I-14 CONTENTS

♦ Cost Accumulation in Process Costing2♦ Equivalent Units of Production2♦ Normal and Abnormal Losses2♦ Process Costing for Decision-Making and Cost Control2♦ Joint Products and By-Products2♦ By-Products2
<ul> <li>Normal and Abnormal Losses</li> <li>Process Costing for Decision-Making and Cost Control</li> <li>Joint Products and By-Products</li> </ul>
<ul> <li>◆ Process Costing for Decision-Making and Cost Control</li> <li>◆ Joint Products and By-Products</li> </ul>
◆ Joint Products and By-Products
♦ By-Products
Points to Remember 2.
Graded Illustrations 2.
Multiple Choice Questions 2
Self Assessment 2
9 ABSORPTION COSTING AND VARIABLE COSTING
♦ Cost behaviour : A Closer Look
♦ Cost Function 2.
◆ Variable Cost Behaviour 2.
◆ Fixed Cost Behaviour 2.
♦ Mixed Cost Behaviour
◆ Importance of Analysing Cost Behaviour and Cost Segregation 2.
◆ Cost Behaviour and Income Determination 2.
◆ Absorption Costing 2.
◆ Variable Costing 2
◆ Comparison of Absorption Costing and Variable Costing 2
◆ Reconciling Absorption Costing Profit and Variable Costing Profit  2
♦ Benefits of Variable Costing
Points to Remember 2
Graded Illustrations 2
Multiple Choice Questions 2
Self Assessment 2.
PART IV: COST INFORMATION AND DECISION MAKING
10 COST-VOLUME-PROFIT ANALYSIS
◆ Cost-Volume-Profit Analysis 2
◆ Techniques of CVP Analysis
◆ Contribution Margin Analysis
◆ Break-even Analysis 2
◆ Margin of Safety 2
◆ Angle of Incidence
◆ Applications of CVP Analysis 2
◆ Extension of CVP Analysis to Multi-product Situations 2
◆ Cost Structure and Profit Sensitivity to Volume changes
Points to Remember 3
Graded Illustrations 3
Multiple Choice Questions 3.
Self Assessment 3.

CONTENTS	I-15
CONTENTS	1-10

	PAGE
11 RELEVANT COSTS AND ALTERNATIVE CHOICE DECISIONS	
◆ Relevant Costs	330
◆ Special Sales Order Problem	332
◆ To Continue or Shut Down a Product/Department	333
◆ Make or Buy Decision	334
◆ To Process further or Sell now : Joint Products Decision	334
♦ Utilization of Scarce Resources : Product-Mix Decision	336
◆ Replacement or not of a Fixed Asset	337
Points to Remember	338
Graded Illustrations	338
Advanced Problems	353
Multiple Choice Questions	364
Self Assessment	364
12 ACTIVITY BASED COSTING	
◆ Traditional Costing System	368
◆ Steps in Overhead Allocation	368
◆ Activity Based Costing System	369
◆ Cost Drivers	371
◆ ABC System and Service Organizations	374
◆ ABC as a System of Cost Allocation	374
Points to Remember	375
Graded Illustrations	375
Multiple Choice Questions	385
Self Assessment	386
PART V : PLANNING, CONTROL AND PERFORMANCE MEASUREME	NT
13 BUDGETING AND BUDGETARY CONTROL	
◆ Budgets and Budgeting	392
◆ Budgets and Budgeting ◆ Budgetary Control	392
◆ Budget Procedure	394
◆ Classification of Budgets	396
◆ Master Budget	400
◆ Fixed and Flexible Budgeting	400
◆ Revision of Budgets	401
◆ Zero Base Budgeting	402
◆ Performance Report	403
Points to Remember	404
Graded Illustrations	404
Multiple Choice Questions	430
Self Assessment	431
	.01

I-16 CONTENTS

	PAGE
14 STANDARD COSTING AND VARIANCE ANALYSIS	
◆ Standard Cost	436
◆ Estimated Cost	436
◆ Establishing Cost Standards	436
◆ Budgetary Control and Standard Costing	438
◆ Setting up the Standard Cost System	438
◆ A General Model for Variance Analysis	439
◆ Material Variances	440
◆ Labour Variances	442
◆ Overhead Variances	443
◆ Sales Variances	446
◆ Mix and Yield Variances	448
◆ Non-manufacturing Variances	452
◆ Control Ratios	453
◆ Benefits and Advantages of Standard Costs	454
◆ Limitations of Standard Costs System	455
Points to Remember	456
Checklist of Important Formulae for Variances	457
Graded Illustrations	457
Multiple Choice Questions	507
Self Assessment	508
15 RESPONSIBILITY ACCOUNTING	
◆ Responsibility Accounting	512
◆ Responsibility Centres	512
◆ Cost Centre	512
◆ Profit Centre	513
◆ Investment Centre	514
◆ Calculation of Rate of Return	514
◆ Net Operating Income and Operating Assets	514
◆ Residual Income as a Performance Measure	515
◆ Improving the ROR	517
◆ Transfer Pricing	518
◆ Methods of Transfer Pricing	518
◆ General Rule for Transfer Pricing	520
Points to Remember	522
Graded Illustrations	522
Multiple Choice Questions	541
Self Assessment	542
,	