Book Review

Title: Modern Cost and Management Accounting

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This book provides an in-depth and insightful analysis of the modern theories and practices of the Cost and Management Accounting and is widely used as a text book. Though the book has been written for Postgraduate and Undergraduate students of Commerce and Management, it would also be immensely useful for students pursuing professional courses offered by the Institute of Chartered Accountants of India (ICAI), Institute of Cost and Management Accountants of India (ICMA), Institute of Company Secretaries of India (ICSI) etc.

The book contains 17 chapters which cover the total course curriculum of the Cost and Management Accounting as a subject. Its salient features consist of (i) more than 500 illustrations with detailed working notes, (ii) more than 400 unsolved problems with detailed guide to answers, (iii) more than 150 multiple choice questions with answers (iv) theoretical questions to aid review of concepts and (v) latest questions of Universities and Professional Examinations.

The first chapter of the book makes a promising beginning with a lively narration of the basics of the Cost and Management Accounting. Concepts of Cost Accounting is basically developed to facilitate the internal management decision making process. Information provided by the Cost Accounting acts as the managerial tool for a business to use available resources at the optimum level. The Management Accounting, on other hand, is an extension of management aspects of the Cost Accounting which provides concepts for the managers to plan, organize, regulate the directions as well as control the business operations.

The author, in the second chapter analyses in details various cost terms, cost concepts and cost

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classifications. It also describes the definition of costs, cost centre, cost units and also covers the distinction between cost centre and cost units with various illustrations to meet the expectation of the readers in various cost terms. The classification of costs has been discussed in insightful manner with diagrams.

In the third chapter, the author focuses on the various aspects of accounting related to material costs. In the first section of this chapter, costs for processes of purchasing, receiving and storing are analyzed; in the second section, the cost concepts of controlling and issuing materials are discussed while in the third section, the focus is on special problems pertaining to accounting for material costs. The chapter also covers the various tools and techniques used for controlling material costs and how to invoice them . Lastly, this chapter analyzed the pricing issues of materials.

The fourth chapter focuses on the accounting method of labour costs. The first section, considers the methods of handling cost components regarding the personnel and payroll management. In the second section, cost components such as remunerations and incentives are considered with general illustration. Special problems relevant for accounting of labour costs , measurement of labour turnover costs, job evaluation and costs of merit rating are explained in this section of the chapter.

In the fifth chapter, the author has explained the accounting technique of overhead costs which consists of definition and classification of overheads dealt in section one, manufacturing overheads in section two. Overhead costs consist of the expenditure on labour, materials or services that cannot be economically identified with a specific saleable cost unit. These comprise of indirect material, labour and other indirect expenses. The indirect nature of overheads means that they need to be distributed fairly and accurately among the cost units.

In the sixth chapter, the author has explained the activity-based costing. Wrong cost analysis leads to wrong decision making. Traditional cost accounting can be used appropriately where the organisation has only few products. When the organisation expands its product range and these products use different amount of organizational resources, traditional absorption method of costing does not give the accurate cost of products. Here, it is necessary to use the Activity Based Costing Technique. The Activity Based costing Technique is a new concept in India. This chapter has dealt with this method of Costing in minute details and in the manner for students to understand easily. Various terms like, Cost Driver, Cost Pull etc. have been discussed in easiest way with proper illustrations.

The seventh chapter has explained the book-keeping method/ cost recording technique. Cost records have a very important role in the accounting system of a manufacturing organisation. This Chapter provides detailed analysis on how to keep the records of various components of costs of the product and service inclusive of material, labour and overhead costs. There are two systems used in maintaining of the cost records i.e., Integrated Records and Non-integrated Records. Under Non-integrated Accounting Systems, financial accounting and inventory or cost accounting books/ ledgers are separately maintained. In Integrated Accounting System only a single set of book/ ledger would contain all the information of financial accounting as well as inventory or cost accounting.

The procedure of job costing and batch costing for the cost estimation and determination of quotation price have been provided with several illustrations for clear understanding of these concepts in the eighth chapter. The contract costing with appropriate explanation of important terms used in the contract costing are discussed in the ninth chapter while the Process Cost Accounting with all its features are found in the chapter ten. A comparison of the various method of processing such as the job order costing vs. the process costing has been drawn. It also has explained the procedure of the process accounting when there is work-in-progress and where there no work-in-progress. In tenth chapter, the calculation of equivalent production has been explained through diagrams in an excellent way.

In the eleventh chapter, the author has explained about the joint products and by-products including the joint cost or common cost, split-off point, separable cost or additional processing costs. A comparison between joint product and by-product has also been explained with an analysis of waste, scrap and by-products as well as accounting for joint products.

All about the operating or service costing with its characteristics of operating or service costing like transport costing, hospital costing, etc. are discussed in the twelfth chapter while he takes up analysis of the budget and budgetary control in the thirteen chapter. Budget is a precise statement of financial and quantitative implications of the course of actions that the management has decided to follow in the immediate next period of time. In this chapter, importance of Cost Budgeting and other functional Budgeting including Flexible Budgeting have been emphasized.

The concepts of the standard costing and its variance analysis are given in the fourteenth chapter. The term standard cost refers to the cost that the management believes should be incurred to produce goods or service under anticipated conditions. Establishing a standard costing system will be quite useful to the management in both planning and control. In the planning stage, it can assist the management with necessary data. This information can be used to find the deviations between the actual vis-à-vis the standards. The measurement of such deviations is carried out through the technique of variance analysis.

The marginal Costing and CVP analysis , relationships between Marginal costing and short term decision making are found in chapters fifteen and sixteen respectively. The marginal costing is not a distinct method of ascertainment of cost but is a technique which applies existing methods in a particular manner to find the relationship between the profit and the volume of output. It is an accounting system where only variable cost or direct cost will be charged to the unit cost. It concentrates on the controllable aspects of business by separating the fixed and the variable costs. the marginal costing are important for short-term decision making in the areas of make or buys decisions, acceptance of special order, discounting a product, selection of product mix in the situation of limited options viz. between shut down or continuation, etc. The definition of the absorption costing and distinction between the absorption costing and the marginal costing are analysed in the seventeenth chapter.

Overall, this book is the valuable resource material for academicians, students at the post graduate and undergraduate levels interested to learn the concepts of the Cost and Management Accounting.