

# PRINCIPLES OF COST ACCOUNTING

## 1. AIMS AND OBJECTIVES

The aims of this examination are to test candidates' ability to

- a) assemble, analyze and ascertain the cost of producing and procuring goods and services;
- (b) develop skills for using Cost Accounting as a tool for assisting management with information needed for planning, control and decision making;
- (c) show awareness of economic use of resources through costing techniques;
- (d) demonstrate knowledge of basic methods of presenting cost statements.

## 2. SCHEME OF EXAMINATION

There will be two papers, Papers 1 and 2, both of which will be a composite paper to be taken at one sitting.

**PAPER 1:** Will consist of fifty multiple-choice objective questions all of which must be answered within 1 hour for of 25 marks.

**PAPER 2:** Will consist of nine essay-type questions. Candidates will be required to answer five questions within 2 hours for 75 marks.

The paper will consist of two sections, Sections A and B as follows:

- Section A: Theory of Principles of Cost Accounting - four questions will be set and candidates will be required to answer two of them for 15 marks each.
- Section B: Practices of Principles of Cost Accounting – five questions will be set and candidates will be required to answer three of them for 15 marks each.

## 3. DETAILED SYLLABUS

TOPICS	NOTES
1. INTRODUCTION TO COST ACCOUNTING	1.1 Definition and objectives of Cost Accounting. 1.2 Functions and importance of Cost Accounting 1.3 Differences among Cost Accounting, Management Accounting and Financial Accounting. 1.4 Basic Costing terminologies e.g Cost Centre, cost unit, unit cost etc.

<p>2. CHARACTERISITICS OF A GOOD COSTING SYSTEM</p>	<p>2.1 Characteristics of a good Costing System e.g simple, relevant, accurate, cost-effective etc</p> <p>2.2 Qualities of good Cost information e.g brief, timely, comparable, objective etc.</p>
<p>3. COST CLASSIFICATION AND TYPES OF COST</p>	<p>3.1 Basis of cost classification: Classification of cost according to behaviour, function, nature etc.</p> <p>3.2 Types of cost under various Classifications eg. direct cost, indirect cost, period cost, historical cost, sunk cost, etc.</p> <p>3.3 Components of cost build-up for ascertaining the cost/profit of a product or an activity e.g prime cost, overheads, factory cost, cost of production, cost of sales, total cost etc.</p>
<p>4. ELEMENTS OF COST</p>	<p>4.1 Explanation of elements of cost i.e Material, Labour and Expenses.</p> <p>4.2 Identification and grouping of elements of cost into direct and indirect costs e.g direct material cost direct, labour cost, direct expenses and overheads such as factory, administration, selling and distribution, etc.</p>

TOPICS	NOTES
<p>5. MATERIALS</p>	<p>5.1 Purchasing, receiving, storage and their documentation.</p> <p>5.2 Stocktaking: periodic and continuous and perpetual inventory system.</p> <p>5.3 Inventory control – Minimum, Maximum, Re-order stock levels and Economic Order Quantity. (computation of Economic Order Quantity is not required).</p> <p>5.4 Pricing of issues and Stock valuation using FIFO, LIFO, Simple Average, Weighted Average, Standard Price</p>

6. LABOUR	<p>methods and their advantages and disadvantages.</p> <p>6.1 Labour: Meaning and types of labour and labour cost:- skilled and unskilled. - direct and indirect.</p> <p>6.2 Methods of labour remuneration: - Time rate - Piece rate: straight piece rate, differential piece rate, piece rate with guaranteed time rate. - incentive schemes: premium bonus, overtime premium.</p> <p>6.3 Methods of time keeping and concept of idle time.</p> <p>6.4 Payroll procedures: -Preparation of wages analysis sheet -statutory and non-statutory deductions should be emphasized. (questions will be limited to computation of individual bonus schemes).</p> <p>6.5 Labour Turnover: Meaning, causes and cost. -Labour turnover ratio.</p>
7. OVERHEADS	<p>7.1 Definition of overheads.</p> <p>7.2 Types of overheads.</p> <p>7.3 Overhead analysis, collection, classification, allocation, apportionment and redistribution.</p>

TOPICS	NOTES
	<p>7.4 Overhead Absorption: - Calculation of Overhead Absorption Rates (OAR) e.g Direct Wages Percentage, Direct Material Cost Percentage, Machine Hour Rate, Prime Cost percentage, etc.</p> <p>7.5 Application of Overhead Absorption Rates.</p> <p>7.6 Calculation of under/over absorption of overheads.</p> <p>7.7 Activity Based Costing:</p>

<p>8. COSTING METHODS</p> <p>8.1 Job/Batch Costing</p> <p>8.2 Contract Costing</p> <p>8.3 Service Costing</p> <p>8.4 Process Costing</p>	<p>7.7.1 Meaning, advantages and disadvantages of Activity Based Costing (ABC).</p> <p>7.7.2 Steps in Activity Based Costing.</p> <p>7.7.3 Differences between Activity Based Costing and Traditional Product Costing systems. - limitations of Traditional Product Costing System.</p> <p>7.7.4 Computation of product cost using Activity Based Costing.</p> <p>8.1.1 Purpose and circumstances under which Job/Batch Costing is applied.</p> <p>8.1.2 Ascertainment of cost of a job or batch.</p> <p>8.2.1 Meaning and characteristics.</p> <p>8.2.2 Preparation of Contract Accounts and Contractee's Account.</p> <p>8.3.1 Meaning and objectives of Service Costing.</p> <p>8.3.2 Organizations that use Service Costing.</p> <p>8.3.3 Ascertainment of cost per unit of services rendered.</p> <p>8.4.1 Explanation and circumstance where process costing is applied</p> <p>8.4.2 Terminologies in process costing e.g joint-products, by-products, scrap, waste, etc.</p>
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TOPICS	NOTES
<p>9.0 COSTING TECHNIQUES</p> <p>9.1 Marginal and Absorption Costing</p>	<p>8.4.3 Preparation of process accounts including Normal loss, Abnormal Loss and Abnormal gain.</p> <p>9.1.1 Meaning and distinction between Marginal and Absorption Costing.</p> <p>9.1.2 Terminologies used in Marginal and Absorption Costing - fixed cost, variable cost, semi-variable costs, contribution, period and product costs. etc.</p>

9.2 Break Even Analysis	9.1.3 Preparation of Income Statement using both Marginal and Absorption costing.
	9.2.1 Meaning, importance, assumptions and limitations of break-even analysis. 9.2.2 Computation of break-even points in units and values from given data including segregation of costs ( using high and low method). 9.2.3 Preparation and interpretation of break-even charts.
10.0 BUDGETING AND BUDGETARY CONTROL	10.1 Explanation of basic terminologies in Budgeting and Budgetary control. 10.2 Budgeting process and Administration. 10.3 Importance of Budgeting and Budgetary control. - Preparation of budgets will be limited to cash sales, material usage, material purchase and production budgets. 10.4 Functional budgets: - Sales, production, capital expenditure, etc. 10.5 Cash budget and master budget.
11.0 STANDARD COSTING	11.1 Meaning and importance of Standard Costing 11.2 Types of Standards. 11.3 Computation of variances: • Material (price and usage) • Labour (rate and efficiency).

TOPICS	NOTES
12.0 COST ACCOUNTS	12.1 Interlocking cost accounts. 12.2 Preparation of cost ledger accounts. 12.3 Reconciliation of cost and financial profits. 12.4 Integrated Cost accounts. 12.5 Preparation of ledger accounts and income statements.

SUGGESTED READING LIST

A. RECOMMENDED TEXT BOOKS

Cost Accounting - by Harper, W.M - Published by Pitman Publishing Ltd.

Cost Accounting - by T. Lucey - Published by DPP Publications Ltd

Weldon's Cost Accounting - Published by Macdonald and Evans Ltd. - by  
Owler, L.W.J and Brown, J.L

Principles of Cost Accounting for - Published by Longman for the  
Senior Secondary Schools in Ghana Ministry of Education, Ghana (1991).

Cost Accounting – by Drury, Colin - Published by Professional Heinemann  
Publishing.

B. OTHER SUGGESTED LOCAL TEXTS /PAMPLETS/JOURNALS IN GHANA

1. Costing Made Easy – by Kingsford Opoku (Kings Series)
2. Costing for 'U' – by Barnabas Dadzie (C for 'U' Series).
3. Cost Accounting for Senior High School - by Williams Asamoah Appiah  
(AKI-OLA Series)-AKI-OLA Publications, Accra