

# Cost Accounting

**S.P. Iyengar**



*11th Edition*



**Sultan Chand & Sons**

# Cost Accounting



# Snap Shot of the Book

	Solved Illustration	Objective Type Questions	Theoretical Questions	Practical Questions
<b>Section A – Principles and Concepts</b>				
A-1. Cost Concepts, Procedures, Methods and Techniques	10	140	92	-
<b>Section B – Elements of Cost</b>				
B-1. Materials – Purchase Control	-	71	19	-
B-2. Materials – Storage and Issue Control	28	92	68	37
B-3. Materials – Costing Receipts and Issues	28	5	14	47
B-4. Materials – Material Losses	-	5	15	3
B-5. Materials – Tools, Patterns, Designs, Blue-Prints and Packing Materials	-	-	4	-
B-6. Labour – Labour Cost Control	5	140	58	5
B-7. Labour – Labour Cost Accounting	55	119	31	60
B-8. Chargeable Expenses	-	-	5	-
B-9. Overheads – Manufacturing	49	174	69	76
B-10. Overheads – Administration, Selling and Distribution	4	113	11	3
<b>Section C – Methods of Costing</b>				
C-1. Job Costing	9	46	14	8
C-2. Contract Costing	23	66	29	44
C-3. Process Costing	35	80	28	81
C-4. Joint Product and By-Product Costing	18	71	13	18
C-5. Unit Costing	22	34	11	43
C-6. Operating Costing	22	55	10	39
C-7. Operation Costing	3	24	9	4
<b>Section D – Cost Book Keeping</b>				
D-1. Cost Book Keeping and Reconciliation of Cost and Financial Accounts	19	97	25	41
D-2. Integral Accounting	5	24	17	10
<b>Section E – Miscellaneous</b>				
E-1. Uniform Costing	-	57	14	-
E-2. Cost Audit	-	75	16	-
E-3. Mechanisation of Cost Accounting	-	77	10	-
<b>Section F – Management Accounting</b>				
F-1. Nature and Scope of Management Accounting	-	121	48	-
<b>Section G – Information for Profit Planning and Decision Making</b>				
G-1. Marginal Costing	17	127	29	14
G-2. Cost-Volume-Profit Analysis	40	82	32	63
G-3. Managerial Decision-Making	34	143	17	70
<b>Section H – Information for Planning and Control</b>				
H-1. Budgetary Control	25	156	83	53
H-2. Responsibility Accounting	3	39	15	-
H-3. Standard Costing	42	170	44	72
H-4. Cost Control and Cost Reduction	-	57	9	-
H-5. Management Reporting	-	43	15	-
Appendix – Emerging Trends in Cost Accounting				
University Question Papers				
Total				

# Cost Accounting

*(For B.Com., BBA, MBA & other Professional Courses)*

**S.P. IYENGAR**

*Formerly Principal  
S.S.M.R.V. College  
Bangalore*



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**Author's Acknowledgement:** The writing of a Textbook always involves creation of a huge debt towards innumerable authors and publications. We owe our gratitude to all of them. We acknowledge our indebtedness in extensive references after the annexures in the book. If, for any reason, any acknowledgement has been left out we may be excused. We assure to carry out correction in the subsequent edition, as and when it is known.



# Preface

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## **Preface to the Eleventh Edition**

We have great pleasure in presenting the Eleventh Revised Edition of the book entitled, "Cost Accounting" to our esteemed readers.

## **Salient Features of the Revised Edition**

The following new additions are worth noting in the present edition:

- Chapter (B-3 - Materials Costing) – Goods and Services Tax (GST) on Purchase of materials with solved illustration.
- Chapter (B-7 Labour Cost Accounting) – Diagrammatical representation of "System of Wage Payment".
- Chapter (C-1 Job Costing) – Comparison between Job Costing and Batch Costing.
- Chapter (C-6 Operating Cost) – (1) Costing of Information Technology and Information Technology Enabled Services (IT & ITES); (2) Costing of Insurance Company (with solved illustrations).
- Chapter (H-1 Budgetary Control) – Activity-Based Budgeting with solved illustration
- Chapter (H-4 Cost Control, Cost Reduction and Cost Management) (1) Target Costing (2) Value Analysis (3) Value Engineering (4) Value Chain Analysis (5) Business Process Re-engineering (BPR)
- Appendix (A) – A new chapter on "Emerging Trends in Cost Accounting".
- Solved Question Papers of University of Madras (Year 2014 to 2018); Unsolved Question Papers of Madras University (2020-21), Osmania University (2019), Bangalore University (2019, 2022) and Madurai Kamaraj University (2022).

We acknowledge with gratitude the help received from scholars, friends and well-wishers at the various stages of preparation of this edition.

We sincerely hope that this revised edition would serve the needs of students and teachers much better. We welcome constructive suggestions from users of this book for its further improvement.

*Editorial Board*  
Sultan Chand & Sons

## **To the Tenth Edition**

Although the previous edition of this book was rewritten, the author has felt it necessary to make substantial changes in some of the major chapters of the book with a view to making it more useful to the users. The chapters that are again rewritten are:

#### iv Preface

- Marginal Costing,
- Cost-volume-profit Analysis,
- Managerial decision-making, and
- Standard Costing.

Besides these chapters which are wholly revised by presenting the contents more informatively and also more elaborately, minor changes have been made in the first chapter also on the basis of the nature of questions set at different University Examinations.

Apart from replacing all the theoretical questions and practical problems with the latest ones set at different Universities and professional bodies in India, the author has also increased their number. The book is made to contain nearly 875 theory questions and 791 unsolved problems with their answers. The number of solved illustrations is about 493.

It is earnestly hoped that this revised edition would serve the needs of students and teachers much better. While welcoming constructive suggestions from the users of this book for its further improvement, the author places on record his sincere thanks to M/s Sultan Chand & Sons, the publishers of this book for bringing out this, the tenth edition barely within two years of its reprint in 2002.

Bangalore

S.P. IYENGAR

#### **Extracts from the Preface to the First Edition**

This book, entitled "Cost Accounting", lays particular emphasis on managerial uses of cost information. Although written mainly from the point of view of students taking up the university examinations to qualify themselves for a degree in Commerce, the book will be highly useful to those interested in the various professional examinations, too. The practising business manager will find the book to be a very useful guide in his attempt at making efficient and economical use of the relatively scarce resources.

The textual matter starts with the presentation of the basic concepts the understanding of which is so essential for a good background of the discipline. It then proceeds logically to a detailed discussion of the components for cost build-up, and later branches off to the managerial functions of planning, decision-making and control with a view to enlightening management on the usefulness of cost information in their day-to-day functioning amidst uncertainty and risk.

A sincere attempt has been made to present the textual matter in a non-technical, simple and lucid style within the comprehending capacity of a beginner.

From the point of view of students in particular, the book is examination-oriented in that it contains a large number of illustrations with notes appended thereto, to assist them to face the concerned examinations with confidence. Besides, exercises of the nature of theory questions and problems relating to the various university and other examining bodies have been given and these exercises are from the latest question papers. In the context of the latest trend of thought regarding the nature of questions set at the various examinations, considerable attention has been given to the objective-type questions, and an attempt in this direction has resulted in the framing and inclusion of 800 of such questions in Appendix 1 of the book. These questions have been arranged chapter-wise.

In preparing this book, I have utilized my 28 years' teaching experience, but yet I feel in all humility that there is no limit to knowledge which is like a vast ocean. Constructive suggestions are most welcome.

Jayanagar, Bangalore  
1980

S.P. IYENGAR



# Syllabus

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**Tamil Nadu State Council for Higher Education, Chennai-600005**

B.Com., General

Third Year – Semester V; Core-IC: Cost Accounting-I

**Unit-I: Introduction of Cost Accounting** – Definition – Nature and Scope – Principles of Cost Accounting – Cost Accounting and Financial Accounting – Cost Accounting vs. Management Accounting – Installation of Costing System – Classification of Costs – Cost Centre – Profit Centre.

**Unit-II: Cost Sheet and Methods of Costing** – Preparation of Cost Sheet – Tenders & Quotations – Reconciliation of Cost and Financial Accounts – Unit Costing-Job Costing.

**Unit-III: Material Costing** – Material Control Meaning and Objectives – Purchase of Materials – EOQ – Stores Records – Reorder Levels – ABC Analysis – Issue of Materials – Methods of Issue – FIFO – LIFO – Base Stock Method – Specific Price Method – Simple and Weighted Average Method.

**Unit-IV: Labour Costing** – Direct Labour and Indirect Labour – Time-Keeping – Methods and Calculation of Wages Payments – Time Wages – Piece Wages – Incentives – Different Methods of Incentive Payments – Idle Time – Overtime – Labour Turnover – Meaning, Causes and Measurement.

**Unit-V: Overheads Costing** – Overheads – Definition – Classification – Allocation and Apportionment of Overheads – Basis of Apportionment – Primary and Secondary Distribution – Absorption of Overheads – Methods of Absorption – Preparation of Overheads Distribution Statement – Machine Hour Rate – Computation of Machine Hour Rate.

Third Year – Semester-VI; Core-XIII: Cost Accounting-II

**Unit-I: Cost Accounting Standards** – An Introduction to CAS – Purpose of CAS – Advantages of CAS – Difference between CAS and FAR Regulations – Different Degrees of CAS Coverage – Cost Accounting Standards – Responsibility Accounting and Divisional Performance Measurement.

**Unit-II: Contract Costing** – Definition – Features of Contract Costing – Calculation of Profit on Contracts – Cost Plus Contract – Contract Costing and Job Costing – A Comparison – Preparation of Contract Account.

**Unit-III: Process Costing** – Process Costing – Meaning – Features of Process Costing – Application of Process Costing – Fundamental Principles of Process Costing – Treatment of Loss and Gain : Normal and Abnormal Loss – Abnormal Gain – Joint Products, By-Products – Concept of Equivalent Production – Process Accounts – Process Losses and Gains.

**Unit-IV: Operation Costing** – Operation Costing – Meaning – Preparation of Operating Cost Sheet – Transport Costing – Power Supply Costing – Hospital Costing – Simple Problems.



## viii Syllabus

**Unit-V: Standard Costing** – Definition – Objectives – Advantages – Standard Cost and Estimated Cost – Installation of Standard Costing – Variance Analysis – Material, Labour, Overhead, and Sales Variances – Calculation of Variance.

### University of Madras

B.Com., (General) Degree Course  
Year III; Semester-VI

**Unit-I: Contract Costing (C-2)** – Definition – Features of Contract Costing (C-2.1) – Cost plus Contract (C-2.2) – Contract Costing *vs.* Job Costing – Preparation of Contract Account.

**Unit-II: Process Costing (C-3)** – Features of Process Costing (C-3.3) – Process Loss – Normal and Abnormal Loss – Abnormal Gain – Joint Products (C-4.1; 4.12) – By Products – Concept of Equivalent Production – Process accounts – Process Losses and Gain (C-3.7; 3.19).

**Unit-III: Operation Costing (C-7)** – Operating Costing (C-6) – Meaning – Preparation of Operating Cost Sheet (C-6.7) – Transport Costing (C-6.5) – Power Supply Costing (C-6.20) – Hospital Costing – Simple Problems (C-6.24).

**Unit-IV: Marginal Costing (G-1)** – Meaning – Features – Absorption Costing (G-1.4) – Marginal Costing *vs.* Absorption Costing (G-1.11) – Contribution – PV Ratio (G-2.10) – Break-Even Point – Key Factor – Margin of Safety – Preparation of Marginal Cost Statement (G-2.10).

**Unit-V: Standard Costing (H-3)** – Definition – Objectives (H-3.8) – Advantages (H-3.77) – Standard Cost (H-3.2) and Estimated Cost (H-3.3) – Installation of Standard Costing – Variance Analysis (H-3.21) – Material (H-3.21) – Labour (H-3.32) Overhead (H-3.40), and Sales Variances (H-3.59) – Calculation of Variances (H-3.59).

### Madurai Kamaraj University, Tamil Nadu

II Year, 2019-2020, III Semester  
Syllabus for New Course for B.Com.

**Unit-I: Introduction (A-1)** – Definition of Cost (A-1.6) – Costing, Cost Accounting and Cost Accountancy (A-1.6; A-1.7) – Scope and Objectives – Advantages and Limitations – Cost (A-1.20) Accounting *vs.* Financial Accounting (A-1.23) and Cost Accounting *vs.* Management Accounting – Classification of Cost – Elements of Cost – Preparation of Cost Sheet (A-1.32; 1.33).

**Unit-II: Material (B-2)** – Material Control – Purchase Procedure (B-1.10) – Different Levels of Stock of Materials (B-2.12) – F.O.Q – Perpetual Inventory System (B-2.37) – ABC Analysis (B-2.32) – Inventory (B-2.41) Turnover Ratio – Bin Card – Stores Ledger (B-2.9) – Pricing of Material Issues (FIFO (B-3.13), LIFO (B-3.18), and Average (B-3.25) Methods – Labour (B-6) Labour Turnover – Methods of Remunerating Labour – Incentive Schemes (B-7.2).

**Unit-III: Overheads (B-9)** – Meaning – Classification – Primary and Secondary Distribution of Overheads (B-9.15, 9.16) – Absorption of Overheads (Simple Problem) (B-9.29).

**Unit-IV: Methods of Costing (C-4)** – Operating Costing (C-6.1) – Process (C-3.1) Costing (C-3.8) – Normal Loss (C-3.7) – Abnormal Loss and Abnormal Effectives – Process Accounts (Excluding Inter – Process Profit and Equivalent Production) – Simple Problems. Joint Product and By-Product (Theory only) (C-4.12).

**Unit-V: Cost Centre (A-1.9)** – Definition – Classification (A-1.9); Profit Centre (H-2.5): Meaning – Purpose – Profit centre *vs.* Cost Centre (H-2.5); Cost Unit (A-1.7): Meaning – Examples; Cost Control (H-4.1): Meaning – Elements – Cost Control Techniques (H-4.2); Cost Reduction (H-4.2): Meaning – Features – Fields Covered – Merits – Tools & Techniques – Cost Control *vs.* Cost Reduction (H-4.3).; Cost Audit (E-2.1; E-2.2): Definition – Objectives – Advantages – Cost Audit (E-2.5) *vs.* Financial Audit (E-2.4).

## Osmania University, Hyderabad

B.Com., Programme (CBCS) Syllabus (w.e.f. 2018-2019)  
Paper (BC 503); Cost Accounting  
Third Year (Semester V)

**Unit-I: Introduction (A-1)** – Cost Accounting (A-1.4): Definition – Features – Objectives – Scope – Advantages and Limitations (A-1.20) – Essentials of a Good Cost Accounting System – Difference between Cost Accounting (A-1.222; 1.23) and Financial Accounting – Cost Concepts – Cost Classification (A-1.6, 1.9).

**Unit-II: Material (B-2)** – Direct and Indirect Material Cost – Inventory Control Techniques – Stock Levels – EOQ – ABC (B-2.10; 2.12) (B-2.32) Analysis – JIT – VED – FSND – Issue of Materials to Production – Pricing Methods: FIFO (B-3.13) – (-3.18) LIFO with Base Stock and Simple and Weighted Average Methods (B-3.25; 3.26).

**Unit-III: Labour and Overheads (B-6)** – Labour: Direct and Indirect Cost (B-6.1) – Methods of Payment of Wages (only Incentive Plans): (B-7.7; 7.17; 7.18) Halsey, Rowan, Taylor Piece Rate and Merrick Multiple Piece Rate Methods (B-7.13). Overheads (B-9.3): Classification – Methods of Allocation – Apportionment (B-9.12) and Absorption of Overheads (B-9.30).

**Unit-IV: Unit and Job Costing (C-5)** – Unit Costing (C-5.1): Features – Cost Sheet – Tender and Estimated Cost Sheet. Job Costing (C-1.3): Features – Objectives – Procedure – Preparation of Job Cost Sheet (C-1.4).

**Unit-V: Contract and Process Costing (C-2)** – Contract Costing: Features – Advantages – Procedure of Contract Costing (C-2.2) – Guidelines to Assess Profit on Incomplete Contracts (C-2.5; 2.6).

Process Costing (C-3): Process Costing: Meaning – Features – Preparation of Process Account – Normal and Abnormal Losses (C-3.8).

### Bangalore University

According to National Education Policy (NEP) – 2020  
Bachelor of Commerce (B.Com.)  
B.Com. 4.2, Semester IV, Cost Accounting

**Module 1: Introduction to Cost Accounting** – Introduction, Meaning and Definitions of Cost, Costing and Cost Accounting. Need and Objectives of Cost Accounting. Distinctions between Financial Accounting and Cost Accounting. Advantages and Limitations of Cost Accounting. Classification of Cost – Material Cost, Labour Cost and Overheads. Important terminologies, Cost Unit, Cost Center, Direct Cost, Indirect Cost, Prime Cost, Production Cost, Administration Cost, Selling and Distribution Cost, Fixed Cost, Variable Cost, Semi-variable Cost, Period Cost, Product Cost, Explicit Cost, Implicit Cost, Historical Cost, Current Cost, Future or Predetermined Cost, Opportunity Cost. Installation of Cost Accounting System – Features of good cost accounting system, Precautions for installing effective cost accounting system, Challenges in installing effective cost accounting system. Cost Sheet – Meaning, Objectives and Contents of Cost Sheet – Problems on preparation of Cost Sheet, Tenders & Quotations.

**Module 2: Material Costing** – Introduction, Meaning of Material Cost, Types of Materials – Direct Materials, Indirect Materials. Material Cost Control – Meaning, Objectives and Benefits. Scope of Material Cost Control – Procurement, Storage and Management of Issues. Make or Buy Decision, Purchase Process, Vendor Selection, Economic Order Quantity. Problems on EOQ. Documents – Bill of Materials, Material, Requisition Note, Purchase Requisition, Purchase Order, Goods Received Note, Bin Cards, Stores, Ledger, Material Return Note, Material Outward Return Note. Methods of Stores or Inventory Control – ABC Method, VED Method and FSN Method. Determination of Stock Levels – Re-order Level, Minimum Level, Maximum Level, Average Level and Danger Level, Problems on Stock Levels. Duties and Responsibilities of Stores Manager. Pricing of Material Issues – Specific Price Method, First-In-First-Out Method (FIFO), Last-In-Last-Out Method (LIFO), Highest-In-First-Out Method (HIFO), Simple Average Method, Weighted Average Method, Base Stock Method, Replacement Cost Method, Realizable

Price Method, Standard Price Method, Inflated Price Method. Problems under First-In-First-Out Method (FIFO), Last-In-Last-Out Method (LIFO), Simple Average Method and Weighted Average Method.

**Module 3: Labour Costing** – Introduction, Meaning of Labour Cost, Types of Labour – Direct Labour, Indirect Labour – Labour Cost Control – Meaning, Objectives and Benefits. Scope of Labour Cost Control Departments involved, Time Analysis or Work Study, Time Keeping and Time Booking, Payroll Procedure, Idle Time, Over Time, Labour Turnover, Wage and Incentive Systems – Simple Time Rate System, Straight Piece Rate System, Taylor’s Differential Piece Rate System, Merrick’s Differential Piece Rate System, Halsey System and Rowan System. Job Evaluation and Merit Rating, Labour Productivity. Problems on calculation of Labour Cost, Overtime Wages and Wage and Incentive Systems.

**Module 4: Overhead Costing** – Introduction, Meaning of Overhead, Classification of Overhead Factory Overhead, Administrative Overhead, Selling Overhead, Distribution Overhead, Research and Development Overhead. Accounting and Control of Overheads. Cost Allocation and Cost Apportionment. Methods of Cost Re-apportionment – Direct Method, Step-ladder Method, Repeated Distribution Method, Simultaneous Equation Method. Problems on Apportionment of production overheads and problems on Re-apportionment of production overheads under Direct Method and Simultaneous Method.

**Module 5: Reconciliation of Financial and Cost Accounts** – Introduction – Meaning of Reconciliation, Reasons for Differences in Profits under Financial and Cost Accounts; Procedure for Reconciliation – Ascertainment of Profits as per Financial Accounts and Cost Accounts and Reconciliation of Profits of both sets of Accounts – Preparation of Reconciliation Statement, Memorandum Reconciliation Account – Problems.

## Bangalore University

(New Syllabus 2020-2021)

B.Com., Degree (Regular) (CBCS Semester Scheme)

5.2 Cost Management; (Semster-V)

**Unit-1: Cost Control and Cost Reduction (H-4)** – Meaning of Cost Control and Cost Reduction (H-4.2) – Area Covered by Cost Control and Cost Reduction (H-4.3) – Product Design (H-4.5), Target Costing – Value Analysis – Value Engineering – Value Chain Analysis, Business (H-4.8) Process Reengineering (H-4.8) (Theory only) Pareto Chart (B-2.34).

**Unit-2: Marginal Costing (G-1)** – Costing – Cost Classification under Absorption Costing – Meaning and Definition of Marginal Costing – Absorption Costing vs. Marginal Costing (G-1.11) – Need for Marginal Costing (G-1.8) – Arguments against and in favor of Marginal Costing – Marginal Cost Equation (G-2.5) – Uses and Limitations of Marginal Costing (G-1.21; G-1.22) – Break-even Analysis (G-2.6) – Problems on Break-even Analyses (G-2.23).

**Unit-3: Standard Costing (H-3)** – Historical Costing – Introduction – Meaning & Definition of Standard Cost and Standard Costing (H-3.2) – Advantages & Disadvantages of Standard Costing – Preliminaries in Establishing System of Standard Costing – Variance Analysis – Material Variance (H-3.21) – Labour Variance (H-3.32) and Overheads Variance (H-3.40) – Problems on Material Variance and Labour Variance (H-3.23; H-3.34).

**Unit-4: Budgetary Control (H-1)** – Introduction – Meaning & Definition of Budget (H-1.4) and Budgetary Control (H-1.6) – Essential Requirements of Budgetary Control – Advantages and Disadvantages of Budgetary Control – Meaning, Types of Functional Budgets – Flexible Budgets (H-1.38) – Cash Budgets (H-1.30) – Sales Budget (H-1.19) and Production Budget (H-1.21; H-1.22) – Problems on Flexible Budgets and Cash Budget (H-1.53).

**Unit-5: Activity Based Costing (B-9)** – Introduction (B-9.64) – Weakness of Conventional System (B-9.65) – Concept of ABC – Kaplan and Cooper’s Approach – Cost Drivers and Cost Pools – Allocation of Overheads under ABC – Characteristics of ABC – Steps in the Implementation of ABC – Benefits from Adaptation of ABC System (B-9.68) – Difficulties faced by the Industries in the Implementation of ABC – Problems on ABC (B-2.35).



# Brief Contents

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Section A – Principles and Concepts	
A-1. Cost Concepts, Procedures, Methods and Techniques	A.1.3–A.1.42

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Section B – Elements of Cost	
B-1. Materials – Purchase Control	B.1.3–B.1.16
B-2. Materials – Storage and Issue Control	B.2.1–B.2.60
B-3. Materials – Costing Receipts and Issues	B.3.1–B.3.62
B-4. Materials – Material Losses	B.4.1–B.4.8
B-5. Materials – Tools, Patterns, Designs, Blue-Prints and Packing Materials	B.5.1–B.5.4
B-6. Labour – Labour Cost Control	B.6.1–B.6.32
B-7. Labour – Labour Cost Accounting	B.7.1–B.7.72
B-8. Chargeable Expenses	B.8.1–B.8.2
B-9. Overheads – Manufacturing	B.9.1–B.9.112
B-10. Overheads – Administration, Selling and Distribution	B.10.1–B.10.32

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Section C – Methods of Costing	
C-1. Job Costing	C.1.3–C.1.22
C-2. Contract Costing	C.2.1–C.2.52
C-3. Process Costing	C.3.1–C.3.88
C-4. Joint Product and By-Product Costing	C.4.1–C.4.34
C-5. Unit Costing	C.5.1–C.5.38
C-6. Operating Costing	C.6.1–C.6.46
C-7. Operation Costing	C.7.1–C.7.10

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Section D – Cost Book Keeping	
D-1. Cost Book Keeping and Reconciliation of Cost and Financial Accounts	D.1.3–D.1.52
D-2. Integral Accounting	D.2.1–D.2.14

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Section E – Miscellaneous	
E-1. Uniform Costing	E.1.3–E.1.14
E-2. Cost Audit	E.2.1–E.2.14
E-3. Mechanisation of Cost Accounting	E.3.1–E.3.14

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Section F – Management Accounting	
F-1. Nature and Scope of Management Accounting	F.1.3–F.1.30
Section G – Information for Profit Planning and Decision Making	
G-1. Marginal Costing	G.1.3–G.1.46
G-2. Cost-Volume-Profit Analysis	G.2.1–G.2.70
G-3. Managerial Decision-Making	G.3.1–G.3.78
Section H – Information for Planning and Control	
H-1. Budgetary Control	H.1.3–H.1.76
H-2. Responsibility Accounting	H.2.1–H.2.14
H-3. Standard Costing	H.3.1–H.3.116
H-4. Cost Control and Cost Reduction	H.4.1–H.4.12
H-5. Management Reporting	H.5.1–H.15.8
Appendix	
Emerging Trends in Cost Accounting	A-1 – A-14
University Question Papers	
1. Madras University November 2014	QP-1
2. Madras University November 2015	QP-14
3. Madras University November 2016	QP-26
4. Madras University November 2017	QP-35
5. Madras University November 2018	QP-46
6. University of Madras Elements of Cost Accounting (November – 2020)	QP-57
7. University of Madras Cost Accounting (November – 2020)	QP-59
8. University of Madras Elements of Cost Accounting (November – 2021)	QP-61
9. University of Madras Cost Accounting (April – 2021)	QP-64
10. Osmania University (Nov./Dec 2019), Hyderabad	QP-67
11. Bangalore University, Bangalore (May/June 2019)	QP-70
12. Bangalore University (December 2019)	QP-73
13. Bangalore University (March/April – 2022)	QP-76
14. Saraswathi Narayana College (April 2022)	QP-79



# Contents

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## Section A – Principles and Concepts

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<b>A-1. Cost Concepts, Procedures, Methods and Techniques .....</b>	<b>A-1.3 – A-1.42</b>
Introduction .....	A-1.3
Sub-areas of the Accounting Discipline .....	A-1.4
Financial Reporting – External and Internal .....	A-1.4
Managerial Need for Accounting Information .....	A-1.5
Cost Accounting – Its Sphere of Activity .....	A-1.5
Basic Cost Concepts .....	A-1.6
Cost .....	A-1.6
Costing .....	A-1.6
Cost Accounting .....	A-1.6
Cost Accountancy .....	A-1.6
Cost Unit .....	A-1.7
Cost Centre .....	A-1.8
Cost Elements and Cost Classification .....	A-1.9
Direct and Indirect Cost .....	A-1.9
Production Cost and its Composition .....	A-1.9
Fixed and Variable Cost .....	A-1.10
Other Cost Concepts .....	A-1.11
Need for Cost Accounting .....	A-1.18
Limitations of Financial Accounting .....	A-1.19
Relationship with Financial Accounting .....	A-1.21
Differences between the Two .....	A-1.21
Principles of Cost Accounting .....	A-1.22
Benefits of Cost Accounting .....	A-1.23
Limitations of Cost Accounting .....	A-1.23
Methods and Procedure .....	A-1.24
Cost Accounting Procedure .....	A-1.24
Cost Accounting Techniques .....	A-1.25
Installation of Cost Accounting .....	A-1.26
Practical Difficulties in Installation .....	A-1.28
Cost Sheet and its Purposes .....	A-1.29
The Cost Accountant .....	A-1.34
Exercises .....	A-1.35

<i>Theory</i> .....	A-1.35
<i>Objective Type</i> .....	A-1.38
<i>Answers</i> .....	A-1.42

## Section B – Elements of Cost

<b>B-1. Materials – Purchase Control</b> .....	<b>B-1.3 – B-1.16</b>
Meaning of the Term 'Materials' .....	B-1.3
Importance of Materials .....	B-1.4
Need For Material Control .....	B-1.4
Definition of Material Control .....	B-1.4
Objectives of Material Control .....	B-1.4
Essentials of Material Control .....	B-1.5
Advantages of Material Control .....	B-1.5
Organisation of Material Control .....	B-1.6
Purchase Department – Purchase Manager .....	B-1.6
Qualifications, Responsibilities and Duties of the Purchase Manager .....	B-1.6
Centralised and Decentralised Purchasing .....	B-1.7
Centralised Purchases .....	B-1.8
Striking a Balance Between the Two .....	B-1.8
Purchase Procedure .....	B-1.9
Just-in-time .....	B-1.13
Just-in-Time Production .....	B-1.14
Just-in-Time Purchasing .....	B-1.14
Exercises .....	B-1.14
<i>Theory</i> .....	B-1.14
<i>Objective Type</i> .....	B-1.15
<b>B-2. Materials – Storage and Issue Control</b> .....	<b>B-2.17 – B-2.60</b>
The Stores Department .....	B-2.1
Objectives of Stores-keeping .....	B-2.2
Functions of the Store-keeper .....	B-2.2
Organisation of Stores Department .....	B-2.3
Types of Organisation .....	B-2.3
Decentralised Stores .....	B-2.3
Combined System .....	B-2.4
Location and Layout of Stores Department .....	B-2.4
Classification and Codification of Stores .....	B-2.4
Classification .....	B-2.4
Codification .....	B-2.5
Methods of Codification .....	B-2.5
Location Coding .....	B-2.6
Advantages of Coding .....	B-2.6
Essentials of Coding .....	B-2.7
Stock Records .....	B-2.7
(a) Bin Card .....	B-2.7
(b) Stock Register .....	B-2.8
(c) Stores Ledger .....	B-2.8
Advantages of Mechanisation .....	B-2.8
Bin Card vs. Stores Ledger .....	B-2.9
Are Bin Cards Necessary? .....	B-2.9
Inventory Control .....	B-2.10
Meaning of Inventory .....	B-2.10
Need for Inventory .....	B-2.10

Inventory Costs .....	B-2.10
Definition of Inventory Control .....	B-2.11
Objectives of Inventory Control .....	B-2.11
Methods of Inventory Control .....	B-2.11
Underlying Assumptions .....	B-2.12
Economic Batch Quantity .....	B-2.12
Determination of EOQ .....	B-2.12
EOQ with Quantity Discount .....	B-2.18
Fixation of Stock Levels .....	B-2.24
ABC Analysis .....	B-2.33
The Two-bin System .....	B-2.36
Ordering Cycle Method .....	B-2.37
Automatic Order System .....	B-2.37
Min-Max Method .....	B-2.37
Perpetual Inventory System .....	B-2.37
Control Ratios .....	B-2.41
Issue of Stores .....	B-2.44
Material Requisitions .....	B-2.45
Bill of Materials .....	B-2.45
Return of Materials .....	B-2.46
Transfer of Materials .....	B-2.47
Exercises .....	B-2.48
<i>Theory</i> .....	B-2.48
<i>Objective Type</i> .....	B-2.50

**B-3. Materials – Costing Receipts and Issues ..... B-3.1 – B-3.62**

Material Cost .....	B-3.1
Valuation of Purchases .....	B-3.2
Goods and Services Tax (GST) on Purchase Materials .....	B-3.2
Specific and Non-specific Costs .....	B-3.3
Specific Costs .....	B-3.3
Non-specific Costs .....	B-3.4
Methods of Apportionment .....	B-3.5
Dual Apportionment .....	B-3.5
Blanket Apportionment .....	B-3.5
Receiving and Handling Charges .....	B-3.5
Treatment as Overhead .....	B-3.6
Blanket Rate and Separate Rates .....	B-3.6
Valuation of Purchases Before Receiving the Invoice .....	B-3.11
Valuation of Stores Issues .....	B-3.11
Objective of Pricing Issues .....	B-3.12
Problem of Pricing Issues .....	B-3.12
Methods of Pricing Issues .....	B-3.13
Specific Price Method .....	B-3.13
First-in, First-out Method .....	B-3.14
Last-in, First-out Method .....	B-3.21
FIFO and LIFO Methods .....	B-3.25
Base Stock Method .....	B-3.26
Highest-in, First out Method .....	B-3.29
Next-in-First out Method .....	B-3.29
Standard Price Method .....	B-3.37
Market Price Method .....	B-3.39
Inflated Price Method .....	B-3.40
Reuse Price Method .....	B-3.42
Effect of the Methods on Inventory Costing.....	B-3.42



Pricing of Materials Returned to Vendors .....	B-3.45
Pricing of Materials Returned to Stores .....	B-3.45
Exercises .....	B-3.46
<i>Theory</i> .....	B-3.46
<i>Objective Type</i> .....	B-3.46
<b>B-4. Materials – Material Losses .....</b>	<b>B-4.1 – B-4.8</b>
The Problem .....	B-4.1
Waste .....	B-4.1
Normal and Abnormal Wastage .....	B-4.2
Scrap .....	B-4.2
Types .....	B-4.2
Valuation .....	B-4.2
Accounting Treatment .....	B-4.3
Control of Waste and Scrap .....	B-4.3
Spoilage .....	B-4.3
Defectives .....	B-4.4
Accounting Treatment .....	B-4.4
Obsolete Materials .....	B-4.4
Minimisation of Loss .....	B-4.5
Exercises .....	B-4.5
Theory .....	B-4.5
Objective Type .....	B-4.6
<b>B-5. Materials – Tools, Patterns, Designs, Blue-Prints and</b>	
<b>    Packing Materials .....</b>	<b>B-5.1 – B-5.4</b>
Tools .....	B-5.1
Accounting .....	B-5.1
Control of Tools Cost .....	B-5.2
Patterns .....	B-5.2
Design, Drawing and Blue-prints .....	B-5.2
Packing Materials .....	B-5.3
Accounting .....	B-5.3
Control .....	B-5.3
Exercises .....	B-5.4
<i>Theory</i> .....	B-5.4
<b>B-6. Labour – Labour Cost Control .....</b>	<b>B-6.1 – B-6.32</b>
Labour Cost .....	B-6.1
Importance of Labour Cost .....	B-6.2
Problem of Labour Cost Control .....	B-6.2
Management's Interest in Labour Cost .....	B-6.2
Departments in Relation to Labour Cost Control .....	B-6.3
Personnel Manager .....	B-6.3
Planning Manager .....	B-6.3
Time-keeping .....	B-6.3
Wage Department .....	B-6.3
Cost Accountant .....	B-6.3
Time-keeping .....	B-6.3
Objects of Time-keeping .....	B-6.4
Methods of Time-keeping .....	B-6.4
Attendance Sheet .....	B-6.4
Disc or Token Method .....	B-6.5
Card Time Recorder .....	B-6.5
Dial Time Recorder .....	B-6.6

Use of Computers .....	B-6.7
Time-Booking .....	B-6.7
Methods of Time-Booking .....	B-6.8
Manual Methods .....	B-6.8
Mechanical Methods .....	B-6.10
Weekly Job Card .....	B-6.10
Time Recording for Piece Workers .....	B-6.11
Piece Work Card .....	B-6.11
Idle Time .....	B-6.12
Normal and Abnormal Idle Time .....	B-6.12
Accounting Treatment .....	B-6.13
Control .....	B-6.13
Idle Time Card .....	B-6.13
Idle Time Report .....	B-6.13
Overtime .....	B-6.14
Is Overtime Work Necessary? .....	B-6.14
Control .....	B-6.14
Treatment of Overtime Cost .....	B-6.15
Methods of Treatment .....	B-6.15
Out-workers .....	B-6.15
Control of Field Labour .....	B-6.16
Casual Workers .....	B-6.16
Control .....	B-6.16
Labour Turnover .....	B-6.17
Causes of Labour Turnover .....	B-6.17
Effects of Labour Turnover .....	B-6.18
Cost of Labour Turnover .....	B-6.18
Measurement of Labour Turnover .....	B-6.19
Minimisation of Labour Turnover .....	B-6.24
Treatment of Cost of Labour Turnover .....	B-6.24
Exercises .....	B-6.25
<i>Objectives Type</i> .....	B-6.26

**B-7. Labour – Labour Cost Accounting ..... B-7.1 – B-7.72**

Problem of Labour Remuneration .....	B-7.1
Principles of Labour Remuneration .....	B-7.2
Features of a Good Wage System .....	B-7.2
Systems of Wage Payment .....	B-7.3
Time Wage Systems or Payment Based on Time .....	B-7.3
Payment by Result .....	B-7.5
Merrick's Differential Piece Rate .....	B-7.14
Incentive Plans for Indirect Workers .....	B-7.42
Fringe Benefits .....	B-7.43
Holiday Pay .....	B-7.44
Treatment of Holiday Pay .....	B-7.44
Leave Pay .....	B-7.44
Labour Cost Accounting .....	B-7.45
Payroll Department .....	B-7.45
Payment of Wages .....	B-7.46
Unclaimed Wages .....	B-7.46
Prevention of Payroll Fraud .....	B-7.46
Work Study .....	B-7.49
Method Study .....	B-7.50
Job Evaluation .....	B-7.51
Methods of Evaluation .....	B-7.51

Merit Rating .....	B-7.52
Distinction between Job Evaluation and Merit Rating .....	B-7.53
Labour Productivity .....	B-7.53
Exercises .....	B-7.54
Theory .....	B-7.54
Objective Type .....	B-7.55

**B-8. Chargeable Expenses ..... B-8.1 – B-8.2**

What are Chargeable Expenses? .....	B-8.1
Nature of Chargeable Expenses .....	B-8.1
Chargeable Expenses and Direct Materials .....	B-8.2
Chargeable Expenses and Overhead .....	B-8.2
Exercises .....	B-8.2
Theory .....	B-8.2

**B-9. Overheads – Manufacturing ..... B-9.1 – B-9.112**

Direct and Indirect Costs .....	B-9.2
Meaning .....	B-9.2
Elements .....	B-9.2
Classification .....	B-9.3
Methods of Classification .....	B-9.3
Functionwise Classification .....	B-9.3
Elementwise Classification .....	B-9.5
Behaviour or Variability Basis .....	B-9.5
Need for Classification According to Behaviour .....	B-9.6
Codification .....	B-9.8
The Mnemonic Method .....	B-9.8
Numerical Method .....	B-9.8
Decimal Method .....	B-9.9
Collection of Manufacturing Overhead .....	B-9.9
Invoice .....	B-9.9
Stores Requisitions .....	B-9.10
Wages Analysis Book .....	B-9.10
Cash Book .....	B-9.10
Journal Entries .....	B-9.10
Subsidiary Records .....	B-9.10
Departmentalisation .....	B-9.10
Allocation and Apportionment .....	B-9.11
Definition of Allocation and Apportionment .....	B-9.11
Distinction between Allocation and Apportionment .....	B-9.12
Bases of Apportionment .....	B-9.12
Reapportionment .....	B-9.15
Methods of Reapportionment .....	B-9.15
Direct Redistribution .....	B-9.15
Step-ladder Method .....	B-9.18
Reciprocal Service Method .....	B-9.19
Overhead Absorption .....	B-9.32
Overhead Rates of Absorption .....	B-9.32
Blanket Rate and Departmental Rates .....	B-9.32
Actual Rates and Pre-determined Rates .....	B-9.33
Capacity Consideration and Overhead Rates .....	B-9.34
What is Capacity? .....	B-9.35
Concepts of Capacity .....	B-9.35
Methods of Overhead Absorption .....	B-9.38
Units of Output .....	B-9.38
Direct Material Cost .....	B-9.38

Direct Wages Cost .....	B-9.39
Prime Cost Basis .....	B-9.39
Direct Labour Hour Basis .....	B-9.40
Machine Hour Rate Basis .....	B-9.46
Machine Expenses or Variable Charges .....	B-9.47
Dual Hour Rate Method .....	B-9.63
Standard Rate Method .....	B-9.63
Under or Over Absorption of Overhead .....	B-9.63
Disposition of Under or Over-absorbed Overhead .....	B9.-64
Application of Supplementary Rates .....	B-9.64
Write off to Profit and Loss Account .....	B-9.65
Carry Forward to Next Year's Accounts .....	B-9.65
Absorption Costing .....	B-9.72
Activity-Based Costing (ABC) .....	B-9.72
Activity-Based Costing .....	B-9.72
Procedure Involved .....	B-9.75
Exercises .....	B-9.76

**B-10. Overheads – Administration, Selling and Distribution ..... B-10.1 – B-10.32**

Definition .....	B-10.1
Nature .....	B-10.2
Accounting .....	B-10.3
Collection .....	B-10.4
ABSORPTION .....	B-10.4
Control .....	B-10.5
Components of Selling and Distribution Overheads .....	B-10.5
Its Features .....	B-10.6
Collection and Absorption .....	B-10.7
Accounting and Control .....	B-10.7
Treatment of Special Items of Overhead .....	B-10.12
Depreciation .....	B-10.12
Interest on Capital .....	B-10.19
Royalty .....	B-10.20
Bad Debts .....	B-10.21
Advertising .....	B-10.21
After-Sales Service .....	B-10.21
Packing Cost .....	B-10.21
Carriage Inward .....	B-10.21
Material Handling and Storage .....	B-10.22
Inspection Charges .....	B-10.22
Drawing and Designing Costs .....	B-10.22
Internal Transport .....	B-10.22
Training Costs .....	B-10.22
Fringe Benefits .....	B-10.22
Canteen Expenses .....	B-10.23
Welfare Expenses .....	B-10.23
Medical Service .....	B-10.23
Power Cost .....	B-10.23
Heating, Lighting and Air-Conditioning .....	B-10.23
Repairs and Maintenance .....	B-10.24
Subscription and Donation .....	B-10.24
Insurance .....	B-10.24
Cost of Small Tools .....	B-10.24
Cost of Time Keeping .....	B-10.24
Purchase Department Cost .....	B-10.25

Cost Office Expenses .....	B-10.25
Fixation of New Plant .....	B-10.25
Moving and Refixing Existing Plant .....	B-10.25
Cost of Dismantling .....	B-10.25
Market Research Expenses .....	B-10.25
Research and Development Expenses .....	B-10.25
Exercises .....	B-10.26

## Section C – Methods of Costing

<b>C-1. Job Costing .....</b>	<b>C-1.3 – C-1.22</b>
Definition .....	C-1.3
Features .....	C-1.3
Advantages .....	C-1.4
Requisites for its Application .....	C-1.4
Costing Procedure .....	C-1.4
Cost Accumulation .....	C-1.5
Batch Costing .....	C-1.5
Comparison between Job Costing and Batch Costing .....	C-1.6
Exercises .....	C-1.17
<b>C-2. Contract Costing .....</b>	<b>C-2.1 – C-2.52</b>
Meaning .....	C-2.1
Basic Features .....	C-2.1
Cost Unit .....	C-2.1
Direct Costs .....	C-2.2
Indirect Costs .....	C-2.2
Surplus Materials .....	C-2.2
Sub-contracts .....	C-2.2
Cost Control .....	C-2.2
Costing Procedure .....	C-2.2
Plant and Machinery .....	C-2.3
Work Certified and Work Uncertified .....	C-2.4
Retention Money .....	C-2.4
Work-in-progress .....	C-2.5
Profit on Incomplete Contracts .....	C-2.5
Escalation Clause .....	C-2.7
Sub-contracting .....	C-2.8
Cost-plus Contract .....	C-2.8
Exercises .....	C-2.33
<b>C-3. Process Costing .....</b>	<b>C-3.1 – C-3.88</b>
Definition .....	C-3.1
Comparison with Job Costing .....	C-3.1
Application of Process Costing .....	C-3.3
Features of Process Costing .....	C-3.3
Difficulties Involved .....	C-3.3
Advantages and Disadvantages .....	C-3.4
Costing Procedure .....	C-3.4
Process Losses .....	C-3.7
Inter-Process Lossess .....	C-3.20
Work-in-Progress and Concept of Equivalent Units .....	C-3.28
FIFO and LIFO Methods of Valuation of WIP .....	C-3.37
Exercises .....	C-3.54

<b>C-4. Joint Product and By-Product Costing .....</b>	<b>C-4.1 – C-4.34</b>
Meaning of Joint Product .....	C-4.1
Co-products .....	C-4.2
Split-off Point .....	C-4.2
Costing of Joint Products .....	C-4.2
Methods of Apportioning Joint Costs .....	C-4.3
Physical Units Method .....	C-4.3
Market Value Method .....	C-4.4
Survey Method .....	C-4.10
Average Unit Cost Method .....	C-4.11
Marginal Cost Method .....	C-4.12
Meaning of By-products .....	C-4.13
Distinction Between Joint Products and By-products .....	C-4.14
Objective of Production .....	C-4.14
Market Value .....	C-4.14
Further Processing .....	C-4.15
Accounting Treatment of By-products .....	C-4.15
A. Non-Cost or Sales Value Methods .....	C-4.15
B. Cost Methods .....	C-4.20
Exercises .....	C-4.24
<b>C-5. Unit Costing .....</b>	<b>C-5.1 – C-5.38</b>
Meaning .....	C-5.1
Essential Features .....	C-5.1
Cost Accumulation .....	C-5.2
Cost Presentation .....	C-5.3
Exercises .....	C-5.22
<b>C-6. Operating Costing .....</b>	<b>C-6.1 – C-6.46</b>
Meaning .....	C-6.1
Nature .....	C-6.1
Applicability .....	C-6.2
Characteristics .....	C-6.3
Area of Activity .....	C-6.3
Cost Unit .....	C-6.3
Influence of Fixed Costs .....	C-6.3
Cost Classification .....	C-6.3
Government Control and Regulation .....	C-6.3
Determination of Cost Unit .....	C-6.4
Types of Service Undertakings .....	C-6.4
Transport Undertakings .....	C-6.4
Boiler House Costing .....	C-6.22
Power House Costing .....	C-6.24
Canteen Costing .....	C-6.26
Hotel Costing .....	C-6.27
Hospital Costing .....	C-6.29
Cinema Costing .....	C-6.29
Costing for IT & ITES .....	C-6.31
Costing of Insurance Company .....	C-6.32
Exercises .....	C-6.33
<b>C-7. Operation Costing .....</b>	<b>C-7.1 – C-7.10</b>
Definition .....	C-7.1
Meaning .....	C-7.1
Relationship With Unit Costing, Process Costing and Service Costing .....	C-7.2

Salient Features ..... C-7.3  
Cost Accumulation Procedure ..... C-7.3  
Use of Control Ratios ..... C-7.4  
Advantages and Disadvantages ..... C-7.4  
Exercises ..... C-7.7

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## Section D – Cost Book Keeping

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**D-1. Cost Book Keeping and Reconciliation of Cost and Financial Accounts ..... D-1.3 – D-1.52**  
Cost Accounting as a Branch of Accounting ..... D-1.3  
Costing and Cost Accounting ..... D-1.4  
Accounting Systems for Costs ..... D-1.4  
Application of Double Entry ..... D-1.4  
Interlocking and Integral Accounting ..... D-1.4  
Cost Accounting Ledgers ..... D-1.5  
Cost Control Accounts ..... D-1.5  
Reconciliation of Cost and Financial Accounts ..... D-1.14  
    Items Appearing Only in Financial Accounts ..... D-1.14  
    Items Appearing Only in Cost Accounts ..... D-1.14  
    Under or Over Absorption of Overheads ..... D-1.15  
    Different Bases of Stock Valuation ..... D-1.15  
    Depreciation ..... D-1.15  
Need for Reconciliation ..... D-1.15  
Reconciliation Statement ..... D-1.16  
Exercises ..... D-1.29

**D-2. Integral Accounting ..... D-2.1 – D-2.14**  
Definition ..... D-2.1  
Meaning ..... D-2.1  
Features ..... D-2.2  
Essential Requisites ..... D-2.3  
    Degree of Integration ..... D-2.3  
    Coordination of Work ..... D-2.3  
    Accruals and Pre-payments ..... D-2.3  
    Coding ..... D-2.3  
Advantages ..... D-2.3  
Third Entry Method ..... D-2.4  
Exercises ..... D-2.9

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## Section E – Miscellaneous

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**E-1. Uniform Costing ..... E-1.3 – E-1.14**  
Meaning of Uniform Costing ..... E-1.3  
Need for Uniform Costing ..... E-1.3  
Objectives of Uniform Costing ..... E-1.4  
Scope of Uniform Costing ..... E-1.4  
Requisites of Uniform Costing ..... E-1.5  
Uniform Cost Manual ..... E-1.6  
Practical Difficulties ..... E-1.7  
Benefits of Uniform Costing ..... E-1.8  
Limitations of Uniform Costing ..... E-1.9  
Inter-firm Comparison ..... E-1.9  
Purpose of Inter-firm Comparison ..... E-1.10

Advantages of Inter-firm Comparison .....	E-1.10
Limitations .....	E-1.11
Exercises .....	E-1.11
<b>E-2. Cost Audit<sup>4</sup> .....</b>	<b>E-2.1 – E-2.14</b>
Meaning of Cost Audit .....	E-2.1
Nature of Cost Audit .....	E-2.1
Objectives of Cost Audit .....	E-2.2
Types of Cost Audit .....	E-2.3
Cost Audit for Managerial Purposes .....	E-2.3
Cost Audit for Individual Customers .....	E-2.3
Cost Audit for Government .....	E-2.3
Cost Audit as Required by a Statute .....	E-2.3
Cost Audit for a Trade Association .....	E-2.4
Cost Audit vs. Financial Audit .....	E-2.4
Advantages of Cost Audit .....	E-2.5
Cost Audit in India .....	E-2.6
Cost Accounting (Record) Rules .....	E-2.7
Cost Audit (Report) Rules .....	E-2.8
Management Audit .....	E-2.9
Exercises .....	E-2.9
<b>E-3. Mechanisation of Cost Accounting .....</b>	<b>E-3.1 – E-3.14</b>
Meaning of Mechanisation .....	E-3.1
Need for Mechanisation .....	E-3.2
Data and Information .....	E-3.2
Data Processing.....	E-3.2
Integrated Data Processing .....	E-3.3
Punched Card Accounting .....	E-3.3
Electronic Data Processing .....	E-3.4
Analog and Digital Computers .....	E-3.4
Hardware and Software .....	E-3.5
Parts of a Computer .....	E-3.5
Computer Language .....	E-3.6
Binary Number System .....	E-3.6
Computer Coding .....	E-3.6
Flow Chart .....	E-3.7
File Organisation .....	E-3.7
Source Documents .....	E-3.8
Data Storage .....	E-3.8
Secondary Storage Devices .....	E-3.9
Output of a Computer .....	E-3.9
Advantages and Limitations .....	E-3.9
Exercises .....	E-3.10

---

## Section F – Management Accounting

---

<b>F-1. Nature and Scope of Management Accounting .....</b>	<b>F-1.3 – F-1.30</b>
Accounting as a Language of Communication .....	F-1.3
Users of Accounting Information .....	F-1.4
External and Internal Reporting .....	F-1.4
Management Accounting.....	F-1.5
Dominance of Financial Accounting.....	F-1.6
Emergence of Cost Accounting .....	F-1.7



Emergence of Management Accounting .....	F-1.7
Nature and Functions of Management Accounting .....	F-1.8
Accountability Concept .....	F-1.8
Controllability Concept .....	F-1.9
Interdependency Concept .....	F-1.9
Relevancy Concept .....	F-1.9
Reliability Concept .....	F-1.9
Scope of Management Accounting .....	F-1.11
Financial Accounting .....	F-1.11
Cost Accounting .....	F-1.11
Financial Management .....	F-1.11
Statistics .....	F-1.11
Engineering .....	F-1.12
Taxation .....	F-1.12
Electronic Data Processing .....	F-1.12
Quantitative Techniques .....	F-1.12
Relationship with Financial Accounting .....	F-1.12
Nature .....	F-1.13
Scope .....	F-1.13
Object .....	F-1.13
Need .....	F-1.13
Periodicity .....	F-1.13
Principles .....	F-1.14
Contents .....	F-1.14
Accuracy .....	F-1.14
Relationship with Cost Accounting .....	F-1.14
Origin .....	F-1.15
Purpose .....	F-1.15
Scope .....	F-1.15
Installation .....	F-1.15
Status .....	F-1.15
Position and Status of Management Accountant .....	F-1.16
Qualifications of Management Accountant .....	F-1.17
His Field of Action .....	F-1.18
Tools and Techniques of Management Accounting .....	F-1.19
Installation of Management Accounting System .....	F-1.20
Advantages and Limitations of Management Accounting .....	F-1.20
Strategic Management Accounting .....	F-1.22
Exercises .....	F-1.23

---

## Section G – Information for Profit Planning and Decision-Making

---

<b>G-1. Marginal Costing .....</b>	<b>G-1.3 – G-1.46</b>
Product Costing .....	G-1.3
Systems of Product Costing .....	G-1.4
Absorption Costing .....	G-1.4
Variable Costing .....	G-1.4
Absorption Costing and its Features .....	G-1.4
Its Features .....	G-1.5
Advantages of Absorption Costing .....	G-1.6
Limitations of Absorption Costing .....	G-1.6
Variable Costing .....	G-1.7
Need for Variable Costing .....	G-1.7
Marginal Costing .....	G-1.8
Features of Marginal Costing .....	G-1.8

Marginal Cost .....	G-1.9
Marginal Costing and Variable Costing .....	G-1.9
Marginal Costing and Direct Costing .....	G-1.10
Marginal Costing and Differential Costing .....	G-1.10
Marginal Costing vs. Absorption Costing .....	G-1.11
Income Determination Under the Two Techniques .....	G-1.13
Impact of the Technique on Profit .....	G-1.15
Uses of Marginal Costing .....	G-1.22
Advantages of Marginal Costing .....	G-1.23
Limitations of Marginal Costing .....	G-1.24
Cost Behaviour .....	G-1.25
Fixed, Variable and Semi-variable Costs .....	G-1.25
Variable Costs .....	G-1.25
Fixed Costs .....	G-1.26
Semi-variable Costs .....	G-1.26
Methods of Segregating Fixed and Variable Elements .....	G-1.26
Level of Activity Method .....	G-1.27
Engineering Estimates .....	G-1.36
Exercises .....	G-1.36
<b>G-2. Cost-Volume-Profit Analysis .....</b>	<b>G-2.1 – G-2.70</b>
Profit Planning .....	G-2.1
CVP Analysis .....	G-2.2
Assumptions Underlying CVP Analysis .....	G-2.2
Practical Application of CVP Analysis .....	G-2.2
Limitations of CVP Analysis .....	G-2.3
Presentation of CVP Analysis .....	G-2.3
Determination of Break-even Point .....	G-2.4
(A) Algebraic Method of Determination .....	G-2.4
(B) Graphical Method of Determination .....	G-2.29
Exercises .....	G-2.53
<b>G-3. Managerial Decision-making .....</b>	<b>G-3.1 – G-3.78</b>
Cost Data for Managerial Decisions .....	G-3.1
Meaning of Decision-making .....	G-3.2
Types of Managerial Decisions .....	G-3.2
Steps Involved in Decision-making .....	G-3.3
Problem and its Analysis .....	G-3.3
Definition of Objective .....	G-3.3
Alternative Solutions .....	G-3.4
Evaluation of Alternatives .....	G-3.4
Selecting the Best Course and Making it Effective .....	G-3.4
Marginal Costing and Decision-making .....	G-3.4
Decision-making Costs .....	G-3.5
Characteristics .....	G-3.5
Relevant Costs for Decision-making .....	G-3.6
Incremental Costs .....	G-3.8
Differential Cost Analysis .....	G-3.8
Characteristics of Differential Cost .....	G-3.8
Differential and Marginal Costing .....	G-3.9
Similarity .....	G-3.9
Difference .....	G-3.9
Influence of Limiting Factors .....	G-3.10
Decisions Involving Alternative Choice .....	G-3.10
(a) Decision to Make or Buy .....	G-3.11

(b) Decision to accept a Special Offer .....	G-3.14
(c) Adding or Dropping a Product-line or Department .....	G-3.18
(d) Product Pricing.....	G-3.25
(e) Level of Activity Planning.....	G-3.30
(f) Profit Planning .....	G-3.33
(g) Profitability of Further Processing .....	G-3.36
(h) Optimum Use of a Limiting or Key Factor .....	G-3.38
(i) Suitable Product Mix.....	G-3.41
Exercises .....	G-3.45

---

## Section H – Information for Planning and Control

---

<b>H-1. Budgetary Control .....</b>	<b>H.1.3 – H.1.76</b>
Definition of Budget .....	H-1.3
Need for Budgeting .....	H-1.4
Nature of Budget .....	H-1.4
Forecast and Budget .....	H-1.5
Budgeting and Budgetary Control .....	H-1.5
Objectives of Budgetary Control .....	H-1.6
Planning .....	H-1.6
Coordination .....	H-1.6
Communication .....	H-1.7
Motivation .....	H-1.7
Control .....	H-1.7
Performance Evaluation .....	H-1.8
Steps Involved in Budgetary Control .....	H-1.8
Essentials of Budgetary Control System .....	H-1.8
Organisation for Budgetary Control .....	H-1.10
The Master Budget .....	H-1.14
Advantages of Budgetary Control .....	H-1.14
Limitations of Budgetary Control .....	H-1.15
Functional Budgets .....	H-1.16
Sales Budget .....	H-1.17
Production Budget .....	H-1.19
Materials Purchase Budget.....	H-1.21
Labour Budget .....	H-1.22
Factory Overhead Budget .....	H-1.23
Plant Utilisation Budget .....	H-1.25
Production Cost Budget .....	H-1.26
Cost of Goods Sold Budget .....	H-1.27
Administration Cost Budget .....	H-1.27
Selling and Distribution Cost Budget .....	H-1.27
Research and Development Cost Budget .....	H-1.29
Capital Expenditure Budget .....	H-1.29
The Cash Budget .....	H-1.30
Budget Reports .....	H-1.33
Activity Based Budgeting .....	H-1.34
Incremental and Zero-base Budgeting .....	H-1.36
Fixed and Flexible Budgeting.....	H-1.38
Planning Programming Budgeting .....	H-1.41
Performance Budgeting .....	H-1.41
Control Ratios .....	H-1.42
Exercises .....	H-1.50

<b>H-2. Responsibility Accounting .....</b>	<b>H-2.1 – H-2.14</b>
The Control Function of Management .....	H-2.1
Need for Control .....	H-2.2
Organisation Planning .....	H-2.2
Organisation Structure .....	H-2.3
Delegation and Decentralisation .....	H-2.3
Meaning of Responsibility Accounting .....	H-2.4
Responsibility Accounting <i>vs.</i> Cost Accounting .....	H-2.4
Responsibility Centres .....	H-2.5
Pre-requisites to Responsibility Accounting .....	H-2.5
Responsibility Reporting .....	H-2.6
Levels of Reporting .....	H-2.6
Feedback and Feed-forward Controls .....	H-2.6
Guidelines for Reporting .....	H-2.7
Limitations of Responsibility Accounting .....	H-2.7
Divisional Performance Measurement: Financial Measures .....	H-2.12
Significance of Measurement of Divisional Manager's Performance .....	H-2.13
Requirements for Divisional Performance Measurement .....	H-2.13
Difficulty in Measurement of Divisional Manager's Performance .....	H-2.14
Financial Methods of Evaluation of Divisional Performance .....	H-2.14
1. Rate of Return on Investment .....	H-2.14
2. Residual Income Method of Evaluation .....	H-2.16
Conclusion .....	H-2.17
Computing Divisional Investment .....	H-2.17
Transfer Price .....	H-2.18
Conclusion .....	H-2.20
Exercises .....	H-2.20
<b>H-3. Standard Costing .....</b>	<b>H-3.1 – H-3.116</b>
Meaning of 'Standard' and 'Standard Cost' .....	H-3.2
Need for Standard Costs .....	H-3.3
Estimated Costs .....	H-3.3
Distinction Between Standard Costs and Estimated Costs .....	H-3.4
Uses of Standard Costs .....	H-3.5
Standard Costing .....	H-3.5
Standard Costing <i>vs.</i> Budgetary Control .....	H-3.5
Distinction between the Two Techniques .....	H-3.6
Objectives of Standard Costing .....	H-3.7
Basic Requirements of Standard Costing .....	H-3.8
Areas Where Standards are Laid Down .....	H-3.8
Classification of Standards .....	H-3.9
Distinction between Ideal Standard and Normal Standard .....	H-3.9
Basic Standard <i>vs.</i> Current Standard .....	H-3.10
Physical Standards .....	H-3.11
Steps Incidental to Adoption of Physical Standards .....	H-3.11
Bases of Fixing Physical Standards .....	H-3.12
Problems in the Way of Fixation of Physical Standards .....	H-3.12
Setting the Various Standards .....	H-3.13
Standard Cost Committee .....	H-3.13
The Standards Manual .....	H-3.13
Procedure for Setting Material Quality Standards .....	H-3.13
Material Price Standards .....	H-3.14
Physical Standards for Labour .....	H-3.15
Standard Time .....	H-3.15
Labour Rate Standards .....	H-3.16
Overhead Expenses Standards .....	H-3.16

Meaning of Standard Hour .....	H-3.17
Jobbing Industries and Standard Costing .....	H-3.17
Valuation of Inventories .....	H-3.18
Cost Variance .....	H-3.18
Variance Accounting .....	H-3.18
Classification of Variances .....	H-3.19
Analysis of Variances .....	H-3.19
Variances of Price, Volume and Efficiency .....	H-3.19
Material Variances .....	H-3.20
Direct Material Cost Variance .....	H-3.20
Direct Material Price Variance .....	H-3.20
Direct Material Usage or Quantity Variance .....	H-3.21
Direct Material Purchase Price Variance .....	H-3.21
Analysis of Material Usage or Quantity Variance .....	H-3.26
Direct Material Mix Variance .....	H-3.26
Direct Material Yield Variance .....	H-3.27
Labour Variances .....	H-3.33
Direct Labour Cost Variance .....	H-3.33
Direct Labour Rate Variance .....	H-3.33
Direct Labour Efficiency Variance .....	H-3.34
Material and Labour Variances .....	H-3.40
Overhead Variances .....	H-3.42
Overhead Cost Variance .....	H-3.42
Variable Overhead Cost Variance .....	H-3.43
Variable Overhead Expenditure Variance .....	H-3.43
Variable Overhead Efficiency Variance .....	H-3.44
Fixed Overhead Variances .....	H-3.45
Fixed Overhead Expenditure Variance .....	H-3.45
Fixed Overhead Volume Variance .....	H-3.46
Fixed Overhead Efficiency Variance .....	H-3.46
Fixed Overhead Capacity Variance .....	H-3.46
Fixed Overhead Calendar Variance .....	H-3.47
Sales Variances .....	H-3.66
Methods of Computation .....	H-3.66
Sales Value Method .....	H-3.67
Segregation of Sales Volume Variance .....	H-3.67
Sales Quantity Variance .....	H-3.67
Sales Mix Variance .....	H-3.67
Sales Margin or Profit Method .....	H-3.68
Sales Margin Price Variance .....	H-3.68
Sales Margin Volume Variance .....	H-3.68
Segregation of Volume Variance .....	H-3.68
Flexible Budgeting and Standard Costing .....	H-3.75
Reporting of Variances .....	H-3.76
Standard Cost Reports .....	H-3.77
Profit Reconciliation Statement .....	H-3.77
Variance Analysis Reports .....	H-3.78
Variance Analysis Reports .....	H-3.78
Control Ratios .....	H-3.80
Accounting Treatment of Variances .....	H-3.82
Transfer to Profit and Loss Account .....	H-3.83
Apportionment to Inventories and Cost of Sales .....	H-3.83
Transfer to a Reserve Account .....	H-3.83
Revision of Standards .....	H-3.84
Revision Variance .....	H-3.84

Methods Variance .....	H-3.84
Types of Accounting for Standard Costs .....	H-3.84
Partial Plan .....	H-3.84
Single Plan .....	H-3.85
Accounting Entries .....	H-3.85
Dual Plan .....	H-3.86
Advantages of Standard Costing .....	H-3.87
Limitations of Standard Costing .....	H-3.88
Exercises .....	H-3.89
<b>H-4. Cost Control and Cost Reduction .....</b>	<b>H-4.1 – H-4.12</b>
Meaning of Cost Control .....	H-4.1
Features of Cost Control .....	H-4.1
Techniques of Cost Control .....	H-4.2
Cost Reduction .....	H-4.2
Cost Control and Cost Reduction .....	H-4.3
Cost Reduction Process .....	H-4.4
Areas of Application .....	H-4.4
Product Design .....	H-4.5
Factory Organisation and Production Methods .....	H-4.5
Administration .....	H-4.5
Personnel .....	H-4.6
Marketing .....	H-4.6
Finance .....	H-4.6
Benefits of Cost Reduction .....	H-4.6
Cost Management .....	H-4.6
Target Costing .....	H-4.8
Value Analysis .....	H-4.8
Value Engineering .....	H-4.8
Value Chain Analysis .....	H-4.8
Business Process Reengineering (BRP) .....	H-4.9
Exercises .....	H-4.9
<b>H-5. Management Reporting .....</b>	<b>H-5.1 – H-5.8</b>
Cost Presentation .....	H-5.1
Management Information System .....	H-5.1
Objectives of Management Information System .....	H-5.2
Levels of Reporting .....	H-5.2
Principles of Reporting .....	H-5.3
Types of Reports .....	H-5.4
Modes of Presentation .....	H-5.4
Reports to Different Levels .....	H-5.5
Exercises .....	H-5.6

---

**Appendix**

---

Emerging Trends in Cost Accounting .....	A-1 – A-14
--	------------

---

**University Question Papers**

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## Solved Illustrations

---

Cost Concepts	10
Material Control	28
Material Costing	28
Labour Cost Control	5
Labour Cost Accounting	55
Manufacturing Overheads	49
Administration, Selling & Distribution Overheads	4
Job Costing	9
Contract Costing	23
Process Costing	35
Joint Products & By-Products Costing	19
Unit Costing	22
Operating Costing	20
Operation Costing	3
Reconciliation	19
Integral Accounting	5
Marginal Costing	17
CVP Analysis	39
Managerial Decision Making	34
Budgetary Control	24
Responsibility Accounting	3
Standard Costing	42
Total	493

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