

Intermediate Course

Study Material

(Modules 1 to 2)

Paper : 4

Cost and Management Accounting

**(Relevant for May, 2027 and
onward Examinations)**

Module – 2



BOARD OF STUDIES (ACADEMIC)
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

This Study Material has been prepared by the faculty of the Board of Studies (Academic). The objective of the Study Material is to provide teaching material to the students to enable them to obtain knowledge in the subject. In case students need any clarification or have any suggestion for further improvement of the material contained herein, they may write to the Joint Director, Board of Studies (Academic).

All care has been taken to provide interpretations and discussions in a manner useful for the students. However, the Study Material has not been specifically discussed by the Council of the Institute or any of its committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

Permission of the Institute is essential for reproduction of any portion of this material.

© THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

All rights reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, recording, or otherwise, without prior permission, in writing, from the publisher.

Basic draft of this publication was prepared by CA. (Dr.) Rashmi Goel

Edition	:	July, 2026
Committee/Department	:	Board of Studies (Academic)
E-mail	:	bosnoida@icai.in
Website	:	www.icai.org
Price	:	₹ /- (For All Modules)
ISBN No.	:	
Published by	:	The Publication Directorate on behalf of The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi 110 002 (India)
Printed by	:	

CONTENTS

MODULE – 1

Chapter 1 – Introduction to Cost and Management Accounting

Chapter 2 – Material Cost

Chapter 3 – Employee Cost and Direct Expenses

Chapter 4 – Overheads: Absorption Costing Method

Chapter 5 – Activity Based Costing

Chapter 6 – Cost Sheet

Chapter 7 – Cost Accounting System

MODULE – 2

Chapter 8 – Unit & Batch Costing

Chapter 9 – Job Costing

Chapter 10 – Process & Operation Costing

Chapter 11 – Joint Products & By Products

Chapter 12 – Service Costing

Chapter 13 – Standard Costing

Chapter 14 – Marginal Costing

Chapter 15 – Budget and Budgetary Control

DETAILED CONTENTS: MODULE-2

CHAPTER 8 – UNIT & BATCH COSTING 8.1-8.35

Learning Outcomes	8.1
Chapter Overview	8.1
1. Introduction.....	8.2
1.1 For industry doing job work	8.2
1.2 For continuous or process type of industries.....	8.2
2. Unit Costing	8.3
3. Cost Collection Procedure in Unit Costing.....	8.3
3.1 Treatment of spoiled and defective work	8.4
4. Batch Costing.....	8.8
5. Costing Procedure in Batch Costing.....	8.8
6. Economic Batch Quantity (EBQ)	8.11
7. Difference between Job and Batch Costing.....	8.15
Summary	8.15
Test Your Knowledge.....	8.16
Multiple Choice Questions (MCQs).....	8.16
Theoretical Questions	8.18
Practical Problems	8.18
Case Scenarios	8.21
Answers to the MCQs.....	8.23
Answers to the Theoretical Questions	8.23
Answers to the Practical Problems	8.23
Answers to the Case Scenarios	8.31

CHAPTER 9 – JOB COSTING 9.1-9.24

Learning Outcomes	9.1
Chapter Overview	9.1
1. Job Costing.....	9.2
1.1 Meaning of Job Costing	9.2
1.2 Principles of Job Costing	9.2
1.3 Process of Job Costing.....	9.2
1.4 Suitability of Job Costing	9.3
2. Job Cost Card/ Sheet.....	9.3
3. Collection of costs for a Job.....	9.4
3.1 Collection of Materials Cost.....	9.4
3.2 Collection of Labour Cost	9.5
3.3 Collection of Overheads.....	9.6
3.4 Treatment of spoiled and defective work	9.6
4. Accounting of Costs for a Job.....	9.8
4.1 Entries in Control Accounts.....	9.8
4.2 Advantages and Disadvantages of Job Costing.....	9.13
4.3 Difference between Job Costing and Process Costing	9.13
Summary	9.14
Test Your Knowledge.....	9.14
Multiple Choice Questions (MCQs)	9.14
Theoretical Questions	9.16
Practical Problems	9.16
Answers to the MCQs	9.21
Answers to the Theoretical Questions	9.21
Answers to the Practical Problems	9.21

CHAPTER 10 – PROCESS & OPERATION COSTING 10.1-10.55

Learning Outcomes	10.1
Chapter Overview	10.1
1. Meaning of Process Costing	10.2
1.1 Basic Features	10.2
2. Costing Procedure in Process Costing	10.3
3. Treatment of Normal , Abnormal Loss and Abnormal Gain	10.5
3.1 Normal and Abnormal loss	10.5
3.2 Abnormal Process Gain/ Yield.....	10.9
4. Valuation of Work in-Process.....	10.15
4.1 Equivalent Units.....	10.16
5. Steps in Process Costing	10.18
6. Process Costing Methods	10.19
7. Inter-Process Profits.....	10.23
8. Operation Costing	10.26
Summary	10.27
Test Your Knowledge.....	10.28
Multiple Choice Questions (MCQs).....	10.28
Theoretical Questions	10.31
Practical Problems	10.32
Case Scenarios.....	10.38
Answers to the MCQs	10.40
Answers to the Theoretical Questions	10.40
Answers to the Practical Problems	10.41
Answers to the Case Scenarios	10.53

CHAPTER 11 – JOINT PRODUCTS AND BY PRODUCTS 11.1-11.44

Learning Outcomes	11.1
Chapter Overview	11.1
1. Meaning of Joint Products and By Products	11.2
2. Apportionment of Joint Costs.....	11.4
3. Methods of Apportionment of Joint Cost to Joint Products.....	11.4
4. Methods of Apportionment of Joint Costs to By Products.....	11.15
5. Treatment of By Products Cost in Cost Accounting	11.17
Summary	11.18
Test Your Knowledge.....	11.20
Multiple Choice Questions (MCQs).....	11.20
Theoretical Questions	11.23
Practical Problems	11.23
Case Scenarios.....	11.28
Answers to the MCQs	11.31
Answers to the Theoretical Questions	11.31
Answers to the Practical Problems	11.31
Answers to the Case Scenarios	11.43

CHAPTER 12 – SERVICE COSTING..... 12.1-12.76

Learning Outcomes	12.1
Chapter Overview	12.1
1. Introduction.....	12.2
1.1 Application of Service Costing.....	12.2
1.2 Service Costing vs. Product Costing	12.3
2. Service Cost Unit and KPI.....	12.3

2.1	Methods for ascertaining Service Cost Unit	12.7
3.	Statement of Costs for Service Sectors.....	12.10
4.	Applications of Costing Methods in Service Costing	12.11
5.	Costing of Transport Services.....	12.11
6.	Costing of Hotels and Lodges.....	12.22
7.	Costing of Hospitals.....	12.28
7.1	Unit of Cost	12.28
7.2	Cost Segregation.....	12.29
8.	1	
8.1	Concept of Project.....	12.32
8.2	Effort Involved	12.32
8.3	Parameters in Computation of Total Cost.....	12.34
9.	Costing of Toll Roads.....	12.36
9.1	Cost Involved	12.37
9.1.1	Capital Costs	12.37
9.1.2	Operating and Maintenance Costs.....	12.37
9.2	Build-Operate-Transfer (BOT) Approach.....	12.38
9.3	Toll Rate.....	12.38
10.	Costing of Educational Institutions	12.41
10.1	Income of the Educational Institutions.....	12.41
10.2	Expenditure of the Educational Institutions.....	12.41
11.	Costing in Insurance Companies.....	12.47
11.1	Income of Insurance Companies.....	12.48
11.2	Expenditure of Insurance Companies.....	12.48
11.3	Method of Costing in an Insurance Company.....	12.48
12.	Costing in Financial Institutions.....	12.51

12.1	Cost Measurement in Financial Institutions.....	12.51
12.2	Activity Based Costing in Financial Institutions	12.52
13.	Other Services-Costing for Power Houses	12.53
	Summary	12.57
	Test Your Knowledge.....	12.57
	Multiple Choice Questions (MCQs).....	12.57
	Theoretical Questions	12.59
	Practical Problems	12.59
	Case Scenarios.....	12.65
	Answers to the MCQs	12.67
	Answers to the Theoretical Questions	12.67
	Answers to the Practical Problems	12.67
	Answers to the Case Scenarios	12.74

CHAPTER 13 – STANDARD COSTING 13.1-13.95

	Learning Outcomes	13.1
	Chapter Overview	13.1
1.	Introduction.....	13.2
1.1	What is a Standard or Standard Cost?	13.2
1.2	Why Standard Costing is Needed?	13.2
2.	Types of Standards	13.3
3.	The Process of Standard Costing	13.5
4.	Setting-up of Standard Cost.....	13.5
4.1	Physical Standards.....	13.6
4.1.1	Problems faced while setting physical standards.....	13.8
4.2	Price or Rate Standards	13.9
5.	Types of Variances.....	13.11

6.	Classification of Variances	13.12
7.	Computation of Variances.....	13.13
7.1	Material Cost Variance	13.14
7.2	Labour Cost Variance.....	13.24
7.3	Variable Overhead Cost Variance	13.36
7.4	Fixed Overhead Cost Variance	13.38
8.	Advantages and Criticism of Standard Costing.....	13.49
8.1	Advantages of Standard Costing	13.49
8.2	Criticism of Standard Costing.....	13.51
	Summary	13.52
	Test Your Knowledge.....	13.54
	Multiple Choice Questions (MCQs).....	13.54
	Theoretical Questions	13.57
	Practical Problems	13.57
	Case Scenarios.....	13.65
	Answers to the MCQs	13.69
	Answers to the Theoretical Questions	13.69
	Answers to the Practical Problems	13.70
	Answers to the Case Scenarios	13.91

CHAPTER 14 – MARGINAL COSTING 14.1-14.85

	Learning Outcomes	14.1
	Chapter Overview	14.2
1.	Introduction.....	14.2
2.	Characteristics of Marginal Costing	14.5
3.	Facts about Marginal Costing	14.6
4.	Determination of Cost and Profit under Marginal Costing.....	14.7

5.	Absorption Costing	14.9
6.	Advantages and Limitations of Marginal Costing	14.9
7.	Cost-Volume-Profit (CVP) Analysis.....	14.11
7.1	Marginal Cost Equation	14.13
7.2	Profit Volume Ratio or P/V ratio.....	14.13
7.3	Break-Even Analysis	14.14
8.	Methods of Break-Even Analysis.....	14.14
8.1	Break-even Point.....	14.14
8.2	Cash Break-even Point.....	14.15
8.3	Multi-Product Break-even Analysis.....	14.16
8.4	Break-even Chart.....	14.20
8.5	Contribution Breakeven Chart.....	14.20
8.6	Profit-Volume Chart.....	14.21
9.	Limitations of Break-Even Analysis.....	14.25
10.	Margin of Safety	14.26
11.	Variations of Basic Marginal Cost Equation and Other Formulae	14.28
12.	Angle of Incidence.....	14.31
13.	Application of CVP Analysis in Decision Making	14.32
13.1	Framework for Decision Making	14.32
13.2	Principles for Identification of Cost and Benefits for Measurement.....	14.33
13.3	Principles of Estimation of Costs and Benefits.....	14.35
13.4	Short-term Decision Making using concepts of CVP Analysis.....	14.36
14.	Distinction between Marginal and Absorption Costing	14.43
14.1	Main Points of distinction between Marginal and Absorption Costing	14.43

14.2 Difference in Profit under Marginal and Absorption Costing	14.44
Summary	14.49
Test Your Knowledge.....	14.50
Multiple Choice Questions(MCQs)	14.50
Theoretical Questions	14.52
Practical Problems	14.52
Case Senarios	14.61
Answers to the MCQs.....	14.63
Answers to the Theoretical Questions	14.63
Answers to the Practical Problems	14.63
Answers to the Case Senarios	14.83

CHAPTER 15-BUDGETS AND BUDGETARY CONTROL 15.1-15.106

Learning Outcomes	15.1
Chapter Overview	15.2
1. Introduction.....	15.2
2. Essentials Characteristics of Budget	15.3
3. Essentials Steps for Preparing Budget	15.4
4. Objectives of Budgeting.....	15.5
5. Budgetary Control.....	15.7
5.1 Budgetary Control Involves	15.7
5.2 Objectives of Budgetary Control System	15.7
5.3 Steps for establishing Budgetary Conrol	15.8
5.4 Feedback and Feedforward Control	15.9
5.5 Budget Committee and Budget Officer.....	15.10
5.6 Advantages of Budgetary Control System.....	15.12
5.7 Limitations of Budgetary Control System	15.13

5.8	Components of Budgetary Control System	15.14
6.	Budgets and Motivation.....	15.14
7.	Preparation of Budgets.....	15.16
8	Different Types of Budgets.....	15.19
8.1	Classification on the basis of Capacity or Flexibility.....	15.19
8.2	Classification on the basis of Function	15.29
8.3	Master Budget.....	15.55
8.4	Classification on the basis of Time Period.....	15.58
9	Zero Based Budgeting (ZBB)	15.59
9.1	Stages in Zero-based Budgeting.....	15.60
9.2	Advantages of Zero-based budgeting	15.60
9.3	Difference between Traditional and Zero- based Budgeting.....	15.61
9.4	Limitations of Zero- based Budgeting.....	15.62
10	Performance Budgeting (PB).....	15.62
10.1	Traditional Budgeting vs. Performance Budgeting	15.63
10.2	Steps in Performance Budgeting.....	15.63
11	Budget Ratio.....	15.67
	Summary	15.70
	Test Your Knowledge.....	15.71
	Multiple Choice Questions (MCQs).....	15.71
	Theoretical Questions.....	15.74
	Practical Problems	15.74
	Case Scenarios.....	15.84
	Answers to the MCQs.....	15.86
	Answers to the Theoretical Questions	15.87
	Answers to the Practical Problems.....	15.87
	Answers to the Case Scenarios.....	15.104

