LECTURE # 1 – MAC Crash Batch
[BASIC CONCEPTS]

Changes:

CAF 3 → CAF 5

Cost & Management Accounting → Management Accounting

(i) Syllabus = Syllabus [Manufacturing A/c]

(ii) Study Text — Ch 2 Inventory MGT . Study Text — Ch 16 : Inventory MGT

(iii) No MCQs — Sec A : upto 10 marks; Sec B : More than 10

Section A [45 – 55]
→ MCQs [10]
→ upto 10 marks
Sect B : More than 10 marks.

Reasons of Failure in MAC

(i) - Incomplete Paper attempt vs Complete Paper [All Q are touched]

- All Questions are not touched
- Some Q are 100% Complete.
- Some Questions are 80% to 90% Complete
- Some Question are 50% or more

(ii) - Casual Reading → Understanding Problem → Cutting / overwriting

- Facts given [No inventory]
- Time waste

(iii) - Spotting of topics

(iv) Sequence of Questions Attempt

- Sec A ✓
- Preparation ✓
- Exam Question Level

Basic Concepts

(1) Production units

(a) - When FG inventory is given : OS units + Production units – CS units = Sale units.

(b) - When FG rejection rate (NL rate) is given : Production Units (Input) = Good units (output) + Rejection units

- Production Units (Input) → Find
- Good units (output) → Given
- Rejection units → % → [% of input] (x) / [% of Output] (given)

e.g.,

Order = 15000 units
Rejection rate = 20%
Production units = ?

Production units (Input) = Good units (Output) + N Loss (Rejected units)

x = 15000 units + 20% of input

$x = 15000 + 20\%\, x$

$x - 0.20x = 15000$

$x = \frac{15000}{0.80} = 18750$ units

15000 Good, 3750 Rejected

$$x = \frac{15000}{0.80} = 18750 \text{ units}$$

15000 Good, 3750 Rejected

(C) - When Completion Rate is given : Equivalent Production units (EPU)

(d) - When Limited Capacity is available :

$$\text{Production units} = \frac{\text{Total Available Resource}}{\text{Resource pu}}$$

e.g Machine Capacity = 5000 Hours
MH pu = 2 MH pu

$$\text{Production units} = \frac{5000 \text{ MH}}{2 \text{ MH pu}} = 2500 \text{ units}$$

2) Production Cost per unit / Manufacturing Cost per unit / Factory Cost pu

Marginal Costing

	Rs.
D.Mat Cost pu	✓
+ D.Lab Cost pu	✓
+ V. FOH Cost pu	✓
= V. Production Cost pu	✓

Absorption Costing [Silent]

	Rs
D. Material Cost pu	✓
+ D. Labour Cost pu	✓
+ V. FOH Cost pu	✓
+ Fixed FOH Cost pu (OAR)	✓
= Full Production Cost pu	✓

(3) Sale Price / Bid Price / Contract Price

Marginal Costing

	Rs	
DMat Cost	✓	pu
+ DL Cost	✓	pu
+ V. FOH Cost	✓	pu
= V. Production Cost	✓	pu
+ V. S, M Cost	✓	pu
= Every VC	✓	pu
+ Contribution Margin	✓	pu
= S. Price	✓	pu

Absorption Costing –

	Rs	
DMat Cost	✓	pu
+ DL Cost	✓	pu
+ V. FOH Cost	✓	pu
+ Fixed FOH Cost (OAR)	✓	pu
= Production Cost pu	✓	
+ V. S, M Cost pu	✓	
+ Fixed S, M Cost pu	✓	
+ Admin Cost (Fixed)	✓	
= Every Cost	✓	
+ Profit	✓	
= S. Price pu	✓	

Relevant / Opportunity Cost Costing Principles

Relevant expenses	Rs.
D. Mat relevant Cost	✓
+ D. Labour relevant Cost	✓
+ V. FOH relevant Cost	✓
+ Attributable FC / Incremental FC	✓
+ NCA usage relevant Cost	✓
+ V. S, M Relevant Cost	✓
+ Attributable Fixed S, M	✓
+ Attributable Admin Cost	✓
= Total Relevant Cost	✓
+ Profit	✓
= Bid Price / Cont Price	✓

(4) Identification of VC / FC / SVC

Cost is given at multiple volumes

Units	5000	8000	10,000	
	Rs	Rs	Rs	
A Cost	50,000 [Rs10]	80,000 [Rs10]	100000 [Rs10]	(VC)
B Cost	25000 [Rs5pu]	40,000 [Rs5 pu]	50,000 [Rs5pu]	(VC)
C Cost	50,000	50,000	50,000	(FC)
D Cost	15000 [Rs3pu]	21000 [Rs2.63]	25000 [Rs2.5]	(SVC)

Cost is given at Single Volume / No volume -

Names

- Factory
  - DM (VC)
  - DL (VC)
  - FOH (SVC)
- Admin → FC
- Selling Exp
  - SExp pu (VC)
  - SExp (% of Sale) VC
  - Total Selling exp (FC)

- Salaries exp → FC
- Rent expense
  - → Rent exp pu pa (VC)
  - → Rent exp (area occupied) (VC)
  - → ✓ Rent exp pm/pa (FC)
- Insurance expense
  - → Insurance exp pu pa (VC)
  - → Insurance exp (Avg inv) (VC)
  - → Insurance exp pm/pa FC
- Dep expense
  - → Dep exp (Straight Line) FC
  - → Dep exp (Output Method) VC
- Storage expense
  - → Storage exp pu pa (VC)
  - → Storage exp pm/pa (FC)
- Delivery expense → VC
- Interest on loan (Finance Cost)
  - ↳ % of Purchase Cost pu (VC)
  - ↳ % of Loan (FC)

- High, Low point
- Learning Curve
- Material loss, Lab loss
- Marginal,