**Cost & Management Accounting**

**NMIMS Centre for Distance and Online Education (NCDOE)**

**Internal Assignment Applicable for June 2025 Examination**

**Q1. ABC Ltd. is a mid-sized electronics manufacturer facing increasing competition. To maintain its market position, ABC’s leadership wants to upgrade its cost management system and leverage innovative management accounting techniques. The CFO has noticed inefficiencies in cost allocation, particularly in overhead expenses, and believes refining the firm’s management accounting practices could strengthen decision-making and secure a competitive advantage. However, the management team is also aware of the potential limitations and challenges of implementing new systems.**

**Briefly explain the distinction between cost accounting and management accounting, and discuss why management accounting information is crucial for ABC’s strategic decisions.**

**Answer:**

**Introduction:**

In the dynamic and competitive world of manufacturing, companies must continuously evaluate and refine their internal processes to maintain a competitive edge. For ABC Ltd., a mid-sized electronics manufacturer, improving cost management is essential to stay ahead of competitors. As the CFO has identified inefficiencies in cost allocation, particularly in overhead expenses, there is a growing recognition of the need to upgrade the company's cost management system. Management accounting plays a pivotal role in helping businesses like ABC Ltd. make informed decisions about pricing, production, and cost control. However, it is important to understand the distinction between cost accounting and management accounting before delving into how management accounting can help improve decision-making at ABC Ltd. Both accounting systems are vital but serve different functions in managing the financial health of a company. While cost accounting focuses primarily on tracking and allocating costs, management accounting goes beyond just cost analysis to include strategic planning and decision support.

By leveraging innovative management accounting techniques, ABC Ltd. can not only improve its internal processes but also ensure more accurate and insightful strategic decisions. However, implementing these systems comes with challenges and potential limitations that must be understood. Here, we will examine the distinctions between cost accounting and management accounting and explore how management accounting can support strategic decisions at ABC Ltd.

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**Q2. ABC Enterprises manufactures a single product. Below is the cost and sales information for one month:**

**- Selling price per unit: Rs. 100**

**- Variable cost per unit: Rs. 60**

**- Fixed manufacturing and operating costs per month: Rs. 1,20,000**

**- Expected sales volume for the month: 4,000 units**

**Required:**

**1. Calculate the break-even point in units.**

**2. Determine the number of units ABC Enterprises must sell to earn a target monthly profit of Rs. 40,000.**

**3. Compute the margin of safety in both units and rupees if the company actually sells 4,000 units.**

**Answer:**

**Introduction:**

In the context of manufacturing, understanding cost structures and calculating break-even points is essential for determining how many units a company needs to produce and sell to cover all its costs. ABC Enterprises, which manufactures a single product, has a detailed breakdown of its cost and sales data for one month. The company wants to determine the break-even point, understand how many units need to be sold to reach a target profit, and evaluate its margin of safety. These calculations are critical for guiding pricing decisions, sales targets, and overall financial planning. The break-even point tells the company the minimum number of units it needs to sell to cover its fixed and variable costs. The target profit calculation, on the other hand, helps the company determine how much sales are needed to achieve a specific profit goal. Finally, the margin of safety provides insight into how far actual sales can fall before the company starts incurring losses. In this scenario, the selling price per unit, the variable cost per unit, fixed costs, and expected sales volume are all provided, which allows for the calculation of these essential business metrics.

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**Q3A. Develop a strategic plan for a company to transition from traditional costing methods to a more dynamic and competitive cost management system?**

**Answer:**

**Introduction:**

In today’s competitive business environment, companies must continuously adapt to stay ahead. One significant step in this process is transitioning from traditional costing methods, such as absorption costing, to more dynamic and competitive cost management systems. These new systems, like Activity-Based Costing (ABC) or Lean Accounting, allow businesses to better allocate costs, improve decision-making, and enhance profitability. The transition requires careful planning, training, and management commitment. This strategic plan outlines how a company can move from traditional costing methods to a more advanced, effective system that aligns with modern business needs and competitive demands.

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**Q3B. Analyze the impact of adopting activity-based costing (ABC) on the financial performance of a service-oriented company?**

**Answer:**

**Introduction:**

In a service-oriented company, accurate cost allocation is crucial for assessing profitability and improving financial performance. Traditional costing methods may not reflect the true costs of service delivery, leading to poor decision-making. Activity-Based Costing (ABC) is a more precise method that allocates costs based on the actual activities that consume resources. Adopting ABC can significantly impact the financial performance of a service-oriented company by providing clearer insights into cost behavior, improving pricing strategies, and enhancing resource management. This analysis will explore the positive and negative effects of ABC on the financial outcomes of such companies.

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