**Cost & Management Accounting**

**Jun 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. (10 Marks)**

**Ans 1.**

**Introduction**

In today’s competitive business environment, accurate cost data and timely managerial insights are vital for strategic decision-making. ABC Ltd., a mid-sized electronics manufacturer, is currently facing inefficiencies in cost allocation, particularly with overheads, due to outdated practices. The leadership recognizes the need to transition toward innovative accounting systems that align cost data with operational realities. This situation highlights the essential role of both cost accounting and management accounting. While cost accounting focuses on tracking and controlling costs, management accounting provides broader insights to aid planning,

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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. (3 marks)**

**2. Determine the number of units ABC Enterprises must sell to earn a target monthly profit of Rs. 40,000. (3 marks)**

**3. Compute the margin of safety in both units and rupees if the company actually sells 4,000 units. (4 marks) (10 Marks)**

**Ans 1.**

**Introduction**

Cost-volume-profit (CVP) analysis is a critical tool in cost and management accounting, especially for businesses like ABC Enterprises that manufacture a single product. This technique helps managers understand the relationship between costs, sales volume, and profits. It is particularly useful for determining how changes in cost structures and sales levels affect a firm’s profitability. In a competitive market, such insights support informed decision-making related to pricing, product planning, and budgeting. ABC Enterprises, aiming to meet its profit goals while managing its costs efficiently, must analyze its break-even point, determine the units

**Q3A. Develop a strategic plan for a company to transition from traditional costing methods to a more dynamic and competitive cost management system? (5 Marks)**

**Ans 3a.**

**Introduction**

In today’s fast-paced business environment, companies must move beyond traditional costing methods to stay competitive and cost-efficient. Traditional costing often fails to capture the complexity of modern production and overheads, leading to distorted product costs. A strategic plan to transition toward a dynamic cost management system is essential for accurate decision-making, competitive pricing, and sustained profitability. Such a transition involves organizational readiness,

**Q3B. Analyze the impact of adopting activity-based costing (ABC) on the financia performance of a service-oriented company? (5 Marks)**

**Ans 3b.**

**Introduction**

Activity-Based Costing (ABC) has gained importance in service industries where traditional cost allocation methods often lead to inaccuracies. Service companies typically incur a high proportion of overhead costs, which must be allocated carefully for meaningful financial analysis. ABC provides a more precise method of assigning indirect costs based on actual activities, rather than broad averages. This approach not only improves service pricing and profitability