Final Course
(Revised Scheme of Education and Training)
Study Material
(Modules 1 to 3)

PAPER 5
Strategic Cost Management and Performance Evaluation
[Strategic Cost Management and Decision Making]
Module – 1

BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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Before we Begin….

Strategic issues are increasingly becoming important, cost management has changed from a traditional role of product costing and operational control to a border, where cost leadership and performance management is vital. In this scenario managing costs strategically and monitoring and controlling performance is crucial for the long-term sustainability of organisations. This study material combines the strategic cost management techniques, with the performance based management framework in one integrated system.

Under the Revised Scheme of Education and Training, at the Final Level, you are expected to not only to apply various strategic cost management tools and techniques but also to analyze and evaluate the issues. The process of learning helps you inculcate the requisite professional skills, necessary for achieving the desired professional competence.

This Study Material is divided into three modules for ease of handling by the students. Module 1 contains Chapters 1-7, Module 2 contains Chapters 8-12 and Module 3 contains Chapters 13. The content for each chapter at the Final level has been structured in the following manner–

(i) Learning Outcomes – Learning outcomes which you need to demonstrate after learning each topic have been detailed in the first page of each chapter. Demonstration of these learning outcomes would help you to achieve the desired level of technical competence.

(ii) Chapter Overview – As the name suggests, this chart/table would give a broad framework of the contents covered in the chapter.

(iii) Content – Study Material lays greater emphasis on analysis and interpretation of information from the perspective of decision usefulness.

(iv) Illustrations and Case Scenarios have been included in the Study Material systematically, after discussion on each topic, so that application of the concept can be understood very clearly. This would also enable you to learn and sharpen your application skills and test your understanding. Case Scenarios are woven into the text to go beyond the numbers and think critically.

(v) Case Studies based on real-world situations are designed to assess a wider range of skills and integrated learning across the syllabus.
(vi) Let us Recapitulate – A summary of the chapter is given at the end to help you revise what you have learnt. It would especially help you to revise the chapter(s) quickly the day before the examination.

Every effort has been made to make the Study Material error free, however if inadvertently any error is present and found by readers they may send it to us immediately, so that it can be rectified at our end.

In case you need any further clarification/ guidance, you may send your queries at deepak.gupta@icai.in
PAPER – 5: STRATEGIC COST MANAGEMENT AND PERFORMANCE EVALUATION

(One Paper- Three hours- 100 Marks)

Objectives

(a) To apply various cost management techniques for planning and controlling performance in order to set, monitor and control strategic objectives.

(b) To develop skills of analysis, synthesis and evaluation in cost management to address challenges and issues which might affect or influence the management of performance with in organisations

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Sub Part—I
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   (i) Concept of Strategic Cost Management
   (ii) Limitations of Traditional Cost Management
   (iii) Traditional vs. Strategic Cost Management

2. Modern Business Environment
   (i) Introduction/ Characteristics of the Modern Business Environment
   (ii) Cost of Quality, Total Quality Management, Business Excellence Model
   (iii) Throughput Accounting and Theory of Constraints
   (iv) Supply Chain Management (SCM)
   (v) Gain Sharing Arrangements
   (vi) Outsourcing
3. Lean System and Innovation
   (i) Introduction to Lean System
       a) Just-in-Time (JIT)
       b) Kaizen Costing
       c) 5 Ss
       d) Total Productive Maintenance (TPM)
       e) Cellular Manufacturing/ One-Piece Flow Production Systems
       f) Six Sigma (SS)
   (ii) Introduction to Process Innovation and Business Process Re-engineering (BPR)

4. Cost Management Techniques
   (i) Cost Control/ Waste Control, Cost Reduction
   (ii) Target Costing
   (iii) Value Analysis/ Value Engineering
   (iv) Pareto Analysis
   (v) Life Cycle Costing
   (vi) Environmental Management Accounting

5. Cost Management for Specific Sectors
   (i) Agricultural Sector
   (ii) Information Technology Sector
   (iii) Power Sector

Sub Part–II
Strategic Decision Making

1. Decision Making
   (i) Decision Making using CVP Analysis
   (ii) Decision Making using Relevant Cost Concepts
   (iii) Decision Making using Activity Based Costing
   (iv) Ethical and Non-Financial Considerations Relevant to Decision Making
2. **Pricing Strategies/ Decisions**
   (i) Theory & Principles of Product Pricing
   (ii) Pricing – New Product, Finished Products & Pricing of Services
   (iii) Sensitivity Analysis in Pricing Decisions
   (iv) Pricing Decision under Special Circumstances
   (v) Pricing Strategies

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### PART–B

**PERFORMANCE EVALUATION AND CONTROL**

**Sub Part—I**

**Performance Evaluation and Reporting**

1. **Performance Measurement and Evaluation**
   (i) Responsibility Accounting
   (ii) Linking Critical Success Factors (CSFs) to Key Performance Indicators (KPIs) and Corporate Strategy; Performance Measurement Models—The Balanced Scorecard, The Performance Pyramid, The Performance Prism and The Building Block Model; Divisional Performance Measures; Benchmarking Schemes
   (iii) Performance Measurement in the Not-for-Profit Sector
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2. **Divisional Transfer Pricing**
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   (ii) Integration of Standard Costing with Marginal Cost Accounting
   (iii) Reconciliation of Profit
   (iv) Variance Investigation Techniques, Interpretation of Variances, Possible Interdependence Between Variances and Reporting
   (v) Behavioural Aspects of Standard Costing, Limitation of Standard Costing (including its use in the contemporary business environment)

PART–C
CASE STUDY

1. Case Study (covering Course Concepts)

General Note

Applications of the following Quantitative Techniques are required to be studied to linkage to course concept:
   (a) Linear Programming
   (b) Learning Curve/ Experience Curve
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