INTERMEDIATE EXAMINATION

GROUP – II

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTION

DECEMBER 2013

Paper – 8: COST & MANAGEMENT ACCOUNTING

Time Allowed: 3 Hours **Full Marks: 100**

The figures in the margin on the right side indicate full marks.

Question No. 1 is *compulsory and answer* any five *from the rest.*

1. (a) Match the statement in Column I with appropriate statement in Column II: 1x5=5

Column I	Column II
(i) Machine Hour Rate	(A) Control of Inventory
(ii) DISC method	(B) Investment Planning
(iii) Batch Costing	(C) Time keeping
(iv) Capital Expenditure Budgeting	(D) Absorption of factory overhead
(v) FSND Analysis	(E) Toy Industry

(b) State whether the following statements are TRUE or FALSE: 1x5 = 5

(i) Cost Accounting is defined as technique and process of ascertaining costs.

(ii) An efficient worker always gets more bonus under Rowan Plan in comparison to Halsey 50% plan.

(iii) Marginal cost includes prime cost plus variable overhead.

(iv) Master budget is prepared generally for long-term.

(v) Average stock level = Average consumption x Average re-order period.

(c) Fill in the blanks: 1x5= 5

(i) Difference between Sales and BEP is known as……

(ii) ……is the value of benefit sacrificed in favour of an alternative course of action.

(iii) Cost of abnormal idle time is charged to……..

(iv)Aggregate of indirect material, indirect Labour and indirect expenses is known as……..

(v) WIP appears on the credit side of the contract account when the contract is …… at end of the accounting period.

(d) In the following cases, one out of four answers is correct. You are required to indicate the correct answer (= 1 mark) and give workings (= 1 mark): 2x5=10

(i) Total cost of 2000 units is ₹ 32000 and for 3200 units is ₹38,000. Fixed cost will be

(a) ₹32,000

(b) ₹22,000

(c) ₹20,000

(d) ₹6,000

(ii) The BEP is 15,000 units, Fixed Cost is ₹22,500, variable cost per units ₹45 the P/V ratio will be

(a) $33\frac{1}{3}\%$

(b) 55%

(c) 15%

(d) 25%

(iii) The standard and actual data for product 'MNP' are given as under:
Standard 40 hours @ ₹20 per hour. Actual 45 hours @ ₹22 per hour, so labour efficiency variance is

(a) ₹90 Adverse

(b) ₹ 100 Favourable

(c) ₹90 Favourable

(d) ₹ 100 Adverse

(iv) If the capacity usage ratio of a production department is 90% and activity ratio is 99%, then efficiency ratio is

(a) 120%

(b) 110%

(c) 90%

(d) 100%

(v) Monthly demand of a product is 500 units. Set up cost per batch is ₹60 cost of manufacturing per unit is ₹20 Rate of Interest is 10% p .a. Based on these parameter, the Economic Batch Quantity would be

(a) 600 units

(b) 500 units

(c) 1500 units

(d) 1000 units

Answer :

1. (a)

i)	Machine Hour Rate	(D) Absorption of Factory Overhead
ii)	Disc Method	(C) Time Keeping
iii)	Batch costing	(E) Toy Industry
iv)	Capital Expenditure Budgeting	(B) Investment Planning
v)	FSND Analysis	(A) Control of Inventory

(b)

i) FALSE. Cost accounting defined as, the technique and process of ascertaining costs.

ii) FALSE. An efficient worker always gets more bonus under Rowan Plan in comparison to Halsey 50% Plan.

iii) TRUE .Marginal cost includes prime cost plus variable overhead

iv) FALSE. Master budget is prepared generally for long term.

v) FALSE. Average stock level = Average consumption x Average re- order period

(c)

i) Difference between sales and BEP is known as **P/V Ratio**

ii) **Opportunity Cost** is the value of benefit sacrificed in favour of an alternative course of action.

iii) Cost of abnormal idle time is charged to **Costing P & L Account.**

iv) Aggregate of indirect material, indirect labour and indirect expenses is known as **Overheads.**

v) WIP appears on the credit side of the contract account when the contract is **Incomplete** at end of the accounting period.

(d) (i) (B) ₹22,000 :

variable cost per unit = (38,000 – 32,000)/(3200 – 2000)= ₹5 per unit.

Fixed cost = 32,000 – (2,000 x 5) = ₹22,000/-

(ii) correct option not given

Contribution per unit = Fixed Cost/ BEP = 22,500/ 15,000 = ₹1.5
Selling price = Variable cost + Contribution per unit = (45 + 1.5) = ₹46.50/-
P/V ratio = (Contribution/ Sales) x 100 = (1.5/46.50) x 100 = 3.23%

(iii) (D) ₹100 Adverse

Labour Efficiency variance = (SH – AH) X SR
= (40 – 45) Hrs. x ₹20
= (-) 5 Hrs. x ₹20 = ₹100 Adverse.

(iv) (B) 110%

Efficiency ratio = Activity ratio/ Capacity
Usage ratio = 99% / 90% = 110%

(v) (A) 600 units $EBQ = \sqrt{\frac{2DS}{1C}} = \sqrt{\frac{2 \times 500 \times 12 \times 60}{0.1 \times 20}}$

2. (a) Chandu Ltd. is currently working at its 60% capacity and produces 24,000 units. The unit cost and selling price for the same level are as follows:

Particulars	Per unit (₹)
Material	**120**
Labour	**90**
Factory overhead (80% variable)	**60**
Administrative overhead (75% fixed)	**40**
Selling and distribution overhead (50% variable)	**30**
Total Cost per unit	**340**
Selling price per unit	**500**

You are required to prepare a flexible budget and estimate the profit of the company when it works at 80% and 100% capacities. It is believed that at 80% capacity raw material cost increases by 3% and selling price falls by 3% whereas at 100% capacity raw material cost increases by 5% and selling price falls by 10%. 5+5=10

(b) List out ten functional budgets. 5

Answer:

(a)

Flexible Budget

Particulars			
Capacity Levels	**60%**	**80%**	**100%**
Output sales (units)	24,000	32,000	40,000
	₹	**₹**	**₹**
Selling price per unit	500	485	450
Sales	1,20,00,000	1,55,20,000	1,80,00,000
Material	28,80,000	39,55,200	50,40,000
Labour	21,60,000	28,80,000	36,00,000
Factory Overheads	14,40,000	18,24,000	22,08,000
Administrative Overheads	9,60,000	10,40,000	11,20,000
Selling and Distribution Overhead	7,20,000	8,40,000	9,60,000
Total Cost	81,60,000	1,05,39,200	1,29,28,000

Profit (Sales - Cost)	38,40,000	49,80,800	50,72,000

Working Notes:

	60%	80%	100%
1. Selling Price	₹500	₹500 – ₹15 = ₹485	₹ 500 - ₹50 = ₹450
2. Material per unit	₹120	₹120 + ₹3.6 = ₹123.6	₹120 + ₹6 = ₹126
3. Factory Overheads Variable (per unit) (60 x 80% = ₹48 p.u.)	₹11,52,000	₹15,36,000	₹19,20,000
Fixed (60 x 20% = 12 x 24,000)	2,88,000	2,88,000	2,88,000
Total	14,40,000	18,24,000	22,08,000
4. Administrative overheads Variable (per unit) (40 x 25% = ₹10 p.u.)	2,40,000	3,20,000	4,00,000
Fixed (40 x 75% = 30 x 24,000)	7,20,000	7,20,000	7,20,000
Total	9,60,000	10,40,000	11,20,000
5. Selling and Distribution Overhead Variable (per unit) (30 x 50% = ₹15p.u.)	3,60,000	4,80,000	6,00,000
Fixed (30 x 50% = 15 x 24,000)	3,60,000	3,60,000	3,60,000
Total	7,20,000	8,40,000	9,60,000

(b) Following are the some functional budgets:

i) Sales budget
ii) Production Budget,
iii) Raw Material Consumption Budget,
iv) Direct Labour cost Budget,
v) Direct Material Cost Budget,
vi) Factory Overheads Budget,
vii) Office and Administrative Overheads Budget,
viii) Selling and Distribution Overheads Budget,
ix) Production Cost Budget,

x) R&D Budget,
xi) Cash Budget,
xii) Man Power Planning Budget,
xiii) Capital Expenditure Budget.

3. (a) State the differences between Differential costing and Marginal costing. 5

(b) While preparing the estimate of profitability for the coming year, the Sales Manager of a company indicated sale of the single product manufactures at a sale price of ₹60 per unit.

At that price the expected profit will be ₹ 25,00,000. The variable cost of the product is ₹20 per unit and the total fixed expenses for the year was estimated at ₹15,00,000.

The Sales Manager further indicated that if there is a reduction in price, the quantity of sale will rise in the following manner:

	When selling price reduced by	Quantity of sale to increase by
(i)	**10%**	**20%**
(ii)	**5%**	**15%**
(iii)	**2.5%**	**8%**

As a Cost Accountant, you have been asked to evaluate the effect of alternative sale prices as above and suggest the best alternative to be adopted in the coming year: 10

Answer:

a) The basic differences between Differential Costing and Marginal Costing are :-

i) Differential costing can be used in the case of both absorption costing as well as marginal costing.
ii) While marginal costing excludes the entire fixed cost, in case of differential cost analysis some of the relevant fixed costs may be taken into account.
iii) Differential costs are worked out separately for the purpose of analysis but marginal costing can be built in the account system.
iv) In Marginal costing, margin of contribution and contribution ratios are the main yardstick for the performance evaluation and for decision making. In Differential Cost Analysis, Differential costs are compared with the incremental or decremental revenues as the case may be.

b) Calculation of quantity of sales envisaged in the original proposal: -

	₹
Expected Profit	25,00,000
Fixed Cost	15,00,000
Contribution	40,00,000
Contribution per unit (₹60 – 20 = ₹40)	40
No. of units to be sold	1,00,000

Evaluation of the three proposals :-

	Selling price reduced by 10% qty. of sale increased by 20%	**Selling price reduced by 5% qty. of sale increased by 15%**	**Selling price reduced by 2.5% qty. of sale Increased by 8%**
Selling price per unit (₹)	54	57	58.50
Revised Contribution per unit (₹)	34	37	38.50
Revised Quantity (Unit)	1,20,000	1,15,000	1,08,000
Total Contribution (₹)	40,80,000	42,55,000	41,58,000

The best option is to reduce selling price by 5% which will result increase in sales by 15%.

4. (a) Discuss the accounting treatment for spoilage and defectives in Cost Accounting. 5

(b) A Company produces two products A & B using similar inputs and facilities.

The availability of Labour hours in a year is 2,35,000 hours and this is considered as the limiting factor. The following details are available for the two products:

	Product A	Product B
Selling price per unit (₹)	100	50
Direct material per unit (₹)	50	11
Direct Labour (₹5 per hour)	25	20
Estimated sale demand (Nos.)	10,000	50,000

Other variable costs common to both products are:

(i) Variable production overhead ₹2 per hour of direct labour.

(ii) Variable selling overhead 10% of sale price.

In the context of the above limiting factor, you are required to calculate a production plan that will maximize contribution to the company and also workout total contribution at the level. 10

Answer:

(a) Spoilage is that production which is not technically approved and can not be rectified. It has a minor value for recovery as scrap. It is generally planned that in a production process a certain percentage of production will be spoiled due to normal reasons. The loss on account of spoilage to the extent planned is borne by good units of production.

When the spoilage is more than the planned percentage, it is considered abnormal loss. After considering value realised as scrap, the amount of such abnormal loss is transferred to Costing Profit and Loss account.

On the other hand, defective is that production which can be reworked and rectified. In the case of Defective, like spoilage a certain percentage of production can be predetermined as to be likely defective. Loss of production due to defectives to the extent it is already planned is to be borne by good units of production. The loss of production in excess of planned defectives is to be treated as abnormal loss and transferred to Costing Profit and Loss Account.

(b) Production plan based on Limiting Factor – 2,35,000 labour hours-

	Product A ₹ per unit	Product B ₹ per unit	
Selling Price	100	50	
Less: Direct material	50	11	
Direct Labour (5hr.)	25 (4 hr.)	20	
Variable Production Overhead (5hr.@ ₹2ph.	10 (4hr.)	8	
V. Selling overheads 10% SP	10	5	
Total variable cost	95	44	
Contribution	5	6	
Units * (nos.)	7,000	50,000	
Contribution Total ₹	35,000	3,00,000	₹3,35,000

*Working note :- Ranking (based on contribution per unit of Labour hour)

Contribution	₹5	₹6	
Labour hour consumed	5	4	
Contribution per unit of labour hr.	₹1	₹1.50	
Ranking	2	1	
Allocation (units)	7,000 (Balance)	50,000 (Max. demand)	

Hr. consumed	35,000	2,00,000	2,35,000hr.

5.(a)

The following details relating to the product 'X' during the month of March, 2013 are available: Standard Cost per unit
Materials 50 kg @₹40 per kg.
Labour 400 hours @₹ 1.00 (one) per hour.
Actual Cost for the month
Material 4,900 kgs @₹42 per kg.
Labour 39,600 hours @₹1.10 per hour.
Actual Production - 100 units
You are required to compute:
(i) Material Price Variance (MPV)
(ii) Material Usage Variance (MUV)
(iii) Material Cost Variance (MCV)
(iv) Labour Rate Variance (LRV)
(v)Labour Efficiency Variance (LEV)
(vi) Labour Cost Variance (LCV)
You are also required to reconcile the standard and the actual cost with the help of such variances. 6+4=10

(b) Define uniform costing. What are the essential requirements to install a uniform costing system? 5

Answer:

5. (a) Standard cost (SC)

	₹
Material 100 x 50kgs = 5,000 kgs. at ₹40/-	2,00,000
Labour 100 x 400 = 40,000 hours at ₹1.00	40,000
	2,40,000

Actual Cost (AC)

	₹
Material 4,900kgs @ ₹42	2,05,800
Labour 39,600hrs. @ ₹1.10	43,560
	2,49,360

Material Variances :

Material Price Variance (MPV) = AQ(SR - AR) = 4900(40 - 42) =	9,800	A
Material Usage Variance (MUV) = SR(SQ - AQ)= 40(5000 - 4900)=	4,000	F
Material Cost Variance(MCV) = SC- AC = 2,00,000 - 2,05,800 =	5,800	A

Labour Variance :

Labour Rate Variance(LRV)= AHP(SR-AR)-39,600(1.00 -1.10)=	3,960	A
Labour Efficiency Variance (LEV) = SR(SH - AHP) =1.00 (40,000 -39,600) =	400	F
Labour Cost Variance(LCV) = SC - AC = 40,000 - 43,560 =	3,560	A

Reconciliation between Standard Cost and Actual Cost :

			₹
Standard Cost			2,40,000
Add : MPV	9,800	A	

MUV	4,000	F		
MCV	5,800	A	5,800	A
LRV	3,960	A		
LEV	400	F		
LCV	3,560	A	3,560	A
Actual Cost			2,49,360	

b) Uniform costing simply denotes that a number of undertakings in a same industry may use same costing principles and procedures to arrive to cost, so that mutual comparison may be possible among them.
ICMA London defines Uniform Costing as,
"the use by several undertakings of the same costing systems, i.e. the same basic costing methods and superimposed principles and techniques."
As per Prof. Glover –
"A system of uniform application of the principles of a costing method agreed upon and adopted by the whole or majority of the manufacturer or executives, in any specific industry."

The success of the uniform costing is based on the following requisites -

1. ***Mutual belief and understanding –***The success or failure of the uniform costing is entirely depends on mutual trust and confidence among the all participants members in the system. It is primarily need for this system.
2. ***Accounting policies and principles –***The details of the method of the costing, various treatments of the cost items, the terminologies to be accepted, principles to be implemented, etc. are to be agreed and accepted by all members in the system.
3. ***Classification and codification –***The bases of classification of accounts to be used for recording and reporting, the codification of the accounts used should have to be as per the need of the object of the uniform costing. It should be acceptable for large and small units also. It should take care of operational difficulties of all members accounting traditions and customs.
4. ***Bases of allocation and apportionment –***The difference in cost calculation among different concerns is basically due to two things – classification of the cost items into direct and indirect costs and thereafter application of the different bases for allocation and apportionment of the overheads. The uniform costing is the good answer for such problem. So carefully equitable bases should be selected and be applied in cost treatment of the members.
5. ***Absorption of overheads –***The selection of the absorption method for the departmental overheads and its uniform application is prerequisite of the uniform costing. It is only capable to give correct comparable cost among the members.
6. ***Areas to be covered –***The areas to be covered under uniform costing depend on the object and depth of the system. All these areas to report must be ascertained in clear terms by the all members to avoid further misunderstanding and disputes. Actually the success of mutual confidence is depending on this factor.

6.(a) In a concern engaged in process industry, four products emerge from a particular process of operation.
The total cost of input for the period ended 30.9.2013 is ₹2,53,500. The details of output,

additional costs after split-off point and the sales value of the products are as under:

Products	Output (kgs.)	Addl. Cost after Split- off point (₹)	Sales value (₹)
A	8,000	60,000	1,68,000
B	5,000	10,000	1,10,000
C	3,000	-	60,000
D	4,000	20,000	90,000

If the products are sold at split- off point, without further processing, the sales value would have been:

Products	(₹)
A	1,15,000
B	90,000
C	55,000
D	80,000

You are required to prepare a statement of profitability based on the products being sold.
(i) after further processing
(ii) at the split-off point. **5+5=10**

(b) Define the terms: Capacity costs and Relevant cost. **2 +3 =5**

Answer:

a) (i) Statement showing profitability after further processing :

Products	Sales Value	Addl. Processing	Equivalent Sales value	Joint Cost	Profit
	At Split – off point				
	(₹)	(₹)	(₹)	(₹)	(₹)
A	1,68,000	60,000	1,08,000	81,000	27,000
B	1,10,000	10,000	1,00,000	75,000	25,000
C	60,000	-	60,000	45,000	15,000
D	90,000	20,000	70,000	52,500	17,500
	4,28,000	90,000	3,38,000	2,53,500	84,500

Joint cost has been apportioned on the basis of equivalent sales value at the split-off point.

(ii) Statement of profitability if sold at split-off point.

Products	Sales Value (₹)	Joint Cost (₹)	Profit (₹)
A	1,15,000	85,743	29,257
B	90,000	67,103	22,897
C	55,000	41,007	13,993
D	80,000	59,647	20,353
	3,40,000	2,53,500*	86,500

* Joint cost has been apportioned on the basis of sales value

6. (b)

(i) Capacity Costs: These costs are normally fixed costs. The cost incurred by a company for providing production, administration and selling and distribution capabilities in order to perform various functions. Capacity cost includes the cost of plant, machinery and building for production, warehouses and vehicles for distribution key personnel for administration. These costs are in the nature long-term costs and are incurred as a

result of planning decisions.

(ii) Relevant cost: It is a cost which is relevant in various decisions of management. Decision making involves consideration of several alternative courses of action. In this process, whatever costs are relevant are to be taken into consideration. In other words, costs which are going to be affected matter the most and these costs are called relevant costs. Relevant cost is a future cost which is different for different alternatives. It can also be defined as any cost which is affected by the decision on hand.

7. (a) Bright Engineering Co. Ltd. manufactures two products X & Y in its factory, similar raw material and similar production processes are involved in their production.
The following particulars are given for the year 2012.

	X	Y
No. of units produced	**10,000**	**15,000**
No. of orders (total)	**30**	**120**
No. of Labour Hours per unit	**2**	**4**
Set ups in the year	**20**	**80**
Machine hour per unit	**6**	**2**

The Co. incurred total over heads of ₹11,60,000 during the year. These overheads have been related to Machine activity, set-ups activity and Handling orders activity to the extent of ₹ 9,00,000, ₹80,000 and ₹1,80,000 respectively.
You are required to calculate the overhead absorption rate for both the products using Traditional Costing method and the Activity Based Costing method. 3+3+4=10

7. (b) Discuss the accounting treatment of idle time wages and overtime wages in cost accounts. 2 +3 =5

Answer:

a) Traditional Costing method:

The overheads absorption rate may be calculated on the basis of labour hours used:

Total Labour Hours used X =	(10,000 x 2) =	20,000 hrs.
Y =	15,000 x 4 =	60,000 hrs.
		80,000 hrs.
Total Overheads =	₹11,60,000	

Overheads absorption rate = (11,60,000 ÷ 80,000) Per hr. ₹14.50

Overhead absorption rate:

For X = (₹14.50 x 2) = ₹29

Y = (₹14.50 x4) = ₹58

Activity Based Costing Method:

Calculation of overheads absorption rate:

	Activities		
	Machine	Set- up	Handling Orders
Total overhead	₹9,00,000	₹80,000	₹1,80,000
Cost driver	Machine. Hrs.	No. of Set up	No. of Orders
Units of cost Drive X :	60,000	20	30

Y :	30,000	80	120
Total	90,000	100	150
Cost per unit of cost driver	₹10	₹800	₹1200

Calculation of overhead Absorption rate (per unit of product):

		X	Y	
Machine Cost	60,000 x 10	₹6,00,000	30,000 x 10 =	₹3,00,000
Set up cost	800 x 20	₹16,000	800 x 80 =	₹64,000
Order cost	1200 x 30	₹36,000	1200 x 120 =	₹1,44,000
Total Overheads		₹6,52,000		₹5,08,000
No. of Units		10,000		15,000
Cost per unit		₹65.2%		₹33.87%

b) Accounting treatment of idle time wages in cost accounts:

Normal idle time is treated as a part of the cost of production. Thus, in the case of direct workers, an allowance for normal idle time is built into the labour cost rates. In the case of indirect workers, normal idle time is spread over all the products or jobs through the process of absorption of factory overheads.

Abnormal idle time. It is defined as the idle time which arises on account of abnormal causes ; e.g. strikes, lockouts, floods, major breakdown of machinery, fire etc. such an idle time is uncontrollable.

The cost of abnormal idle time due to any reason should be charged to Costing Profit & Loss Account.

Accounting treatment of overtime wages in cost accounts:

If overtime is resorted to at the desire of the customer, then the overtime premium may be charged to the job directly.

- If overtime is required to cope with general production programme or for meeting urgent orders, the overtime premium should be treated, as overhead cost of particular department or cost center which works overtime.
- Overtime worked on account of abnormal conditions should be charged to costing Profit & Loss Account.
- If overtime is worked in a department due to the fault of another department the overtime premium should be charged to the latter department.

8. Answer *any three* of the following: 5x3=15

(a) Inter-process Profits.
(b) Cost Ledger (maintained in a Costing Department).
(c) Benefits of Integrated Accounting system.
(d) Business performance measurement systems.
(e) Budget Manual.

Answer:

a) Inter-process Profits:

The output of one process is transferred to the subsequent process at cost price. However, sometimes the transfer is made at cost plus certain percentage of profit. This is done when each process is treated as a profit centre. In such case, the difference between the debit and credit side of the process account represents profit or loss and is transferred to the P & L Account. The stocks at the end and at the beginning contain an element of unrealized profits, which have to be written back in this method. If the profit element contained in the closing inventory is more than the profit element in the opening inventory, profit will be overstated and vice versa. Profit is realized only on the goods sold, thus to obtain the actual profit the main task would be to calculate the profit element contained in the inventories. In order to compute the profit element, in closing inventory and to obtain the net realized profits for a

period, three columns have to be shown in the Ledger for showing the cost, unrealized profit and the transfer price.

b)

Cost Ledger maintains the accounts relating to Income and Expenditure. The following accounts are maintained in this ledger.

(i) Cost Control Accounts -

These accounts are maintained to exercise control over the three subsidiary ledgers maintained, such as Stores ledger, work-in-progress ledger, finished goods / stock ledger and also to complete the double entry in cost accounts. The important cost control accounts are as follows:-

(1) Stores Ledger control account, (2) Work-in-progress ledger control account, (3) Finished goods ledger control account and (4) General Leger adjustment account.

(ii) Other Accounts -

They include all other impersonal accounts [real as well as nominal] which effect costs, e.g. wages control account, factory overhead accounts, administration overhead account, selling & distribution overhead account, cost of sales account, etc. Depending upon the requirement, the following additional accounts may also be maintained: Overhead suspense account, Capital orders account, Service orders account.

c)

Integrated accounting system has the following benefits:-

- As only one set of accounting records are kept, the need for reconciliation between the profits shown by the two records are eliminated.
- The duplication is eliminated, thus the cost is reduced.
- Simple to understand and easy to operate, unnecessary complications are eliminated.
- Cost data can be available promptly and regularly.
- There is cross - checking of various figures in cost as well as in financial accounts and this ensures accuracy of cost and financial data.
- Use of mechanized accounting methods can be made.

d) Business performance measurement systems :

Business Performance Measurement (BPM) systems have grown in use and popularity over the past twenty years. Firms adopt BPM systems for a variety of reasons, but chiefly to improve control over the firm in ways that traditional accounting systems have not allowed. Several approaches, or frameworks, for building and managing BPM systems have evolved with the balanced scorecard as the dominant framework in use today. Despite the growing use of BPM systems in organizations of all kinds, significant problems cause firms to experience difficulty in implementing BPM systems. The problems range across a variety of topics : excessive diversity in the field of study, data quality and information system integration problems, lack of linkage to strategy, fundamental differences in how a strategy is formulated and executed in the firm, ill-defined metrics identification processes, high levels of change in BPM systems, analytical skills challenges, knowledge as a social and non-deterministic phenomenon, judgment and decision biases (from prospect theory literature) and organizational defenses that can undermine successful BPM systems use.

Why Measure Business Performance?

Business performance measurement has a variety of uses.

Companies measure business performance as follows:-

- To monitor and control
- To drive improvement

- To maximize the effectiveness of the improvement effort
- To achieve alignment with organizational goals and objectives.
- To reward and to discipline.

e) ***Budget Manual:*** A budget manual is defined by ICMA as 'a document which sets out the responsibilities of the person engaged in, the routine of and the forms and records required for budgetary control'.
The budget manual thus is a schedule, document or booklet, which contains different forms to be used, procedures to be followed, budgeting organization details, and set of instructions to be followed in the budgeting system. It also lists out details of the responsibilities of different persons and the managers involved in the process.
A typical budget manual contains the following:

- Objectives and managerial policies of the business concern.
- Internal lines of authorities and responsibilities.
- Functions of the budget committee including the role of budget officer.
- Budget period
- Principal budget factor
- Detailed program of budget preparation
- Accounting codes and numbering
- Follow up procedures.

Advantages of Budget Manual:

- The methods and procedures of budgetary control are standardized.
- It is a formal record defining the functions and responsibilities of each executive.
- There is synchronization of the efforts of all which result in maximization of the profits of the organization.
- Ambiguity is avoided.