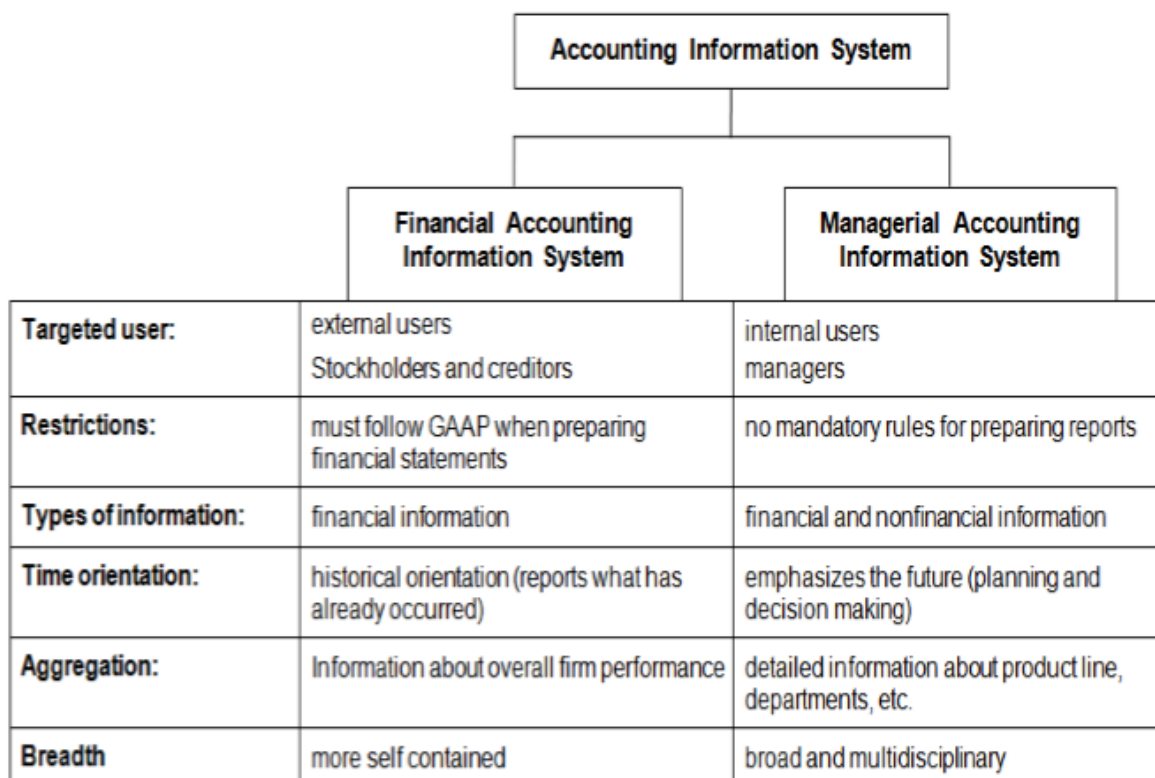# WEEK 1 – INTRODUCTION TO MANAGEMENT ACCOUNTING

The purpose of accounting is to provide financial information to permit informed judgements and decisions regarding the allocation of resources. Managing and directing those resources and custodianship.

There are 2 main types of accounting information systems:

- **Financial accounting**: Primarily concerned with producing information for _external users_ (investors, creditors…). Based on historical information and is used for investment decisions, monitoring activities and regulatory measures. Financial statements must conform to rules and regulations set out by the Australian Securities and Investments Commission (ASIC), the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). The output of financial accounting, the financial statements, are prepared at regular, fixed intervals. The financial statements generally encompass the company as a whole.
- **Managerial accounting**: Primarily concerned with producing information for _internal users_ (managers, execs, workers…). Orientation is future based, it is based on both objective and subjective information. Does not have to comply to external financial reporting rules set down by GAAP or ASIC. Uses both financial and nonfinancial measures of performance and therefore gives a broader perspective.
  Process of identifying, measuring, analysing, interpreting and communicating information in the pursuit of an organisation's goals. The reports are produced for managers whenever the information is needed. These reports generally focus on a segment of the company (a product, geographic location…).

Accounting Information System	Financial Accounting Information System	Managerial Accounting Information System
Targeted user:	external users Stockholders and creditors	internal users managers
Restrictions:	must follow GAAP when preparing financial statements	no mandatory rules for preparing reports
Types of information:	financial information	financial and nonfinancial information
Time orientation:	historical orientation (reports what has already occurred)	emphasizes the future (planning and decision making)
Aggregation:	Information about overall firm performance	detailed information about product line, departments, etc.
Breadth	more self contained	broad and multidisciplinary

WEEK 4 – Allocating Support Department Costs

Cost Allocation of Support Departments: Costs of <u>support departments/cost pools</u> (departments that do not directly work on the products, other cost pools include equipment setups) can be allocated to <u>production departments</u> using a common allocation base. There are 4 steps:

1. <u>Trace all overhead (OH) costs to a support or production department.</u>
2. <u>Allocate support department costs to the production departments.</u>

    3 GUIDELINES
    1. Support costs should be allocated using cost drivers that explain or relate to the consumption of services.
    2. However, if a single charging rate is used, fixed costs and variable costs are combined and then divided by estimated activity. The amount charged to production departments is calculated as: Single charging rate x Production department usage. However, sometimes instead of using a single charging rate, a company may break support resources and cost drivers into multiple charging rates. Benefits of extra precision must be weighed up with the extra cost of applying those rates.
    3. Budgeted costs, not actual costs, should be allocated so that support departments efficiencies or inefficiencies are not passed onto the production department.

3. <u>Combine OH costs from the production department with OH costs allocated to the production department from the support department.</u>
    There are 3 methods that can be used to allocate support department costs to production departments, however, it is always true that total OH costs must remain constant before and after allocation:
    1. **Direct method:** Allocates support department costs directly to the production departments based on their relative usage. This method ignores reciprocal services (services that one department supplies to another support department). After allocation there are no costs left in the support departments, all OH costs have been transferred to production departments.
    2. **Sequential/step method:** With this method we rank support departments with the support department with the greatest total costs ranked no.1. Then we distribute costs to the other support and production departments (this method recognises reciprocal services). Once costs are allocated from a support department, no costs can be allocated back to that department.
    3. **Reciprocal method:** (not required in ACC2CAD)

4. <u>Allocate total costs to units of individual products using a predetermined OH rate.</u>
    Once costs are allocated to production departments, these costs are included in the total OH costs of that department. The departmental OH rate can then be calculated by dividing the total departmental OH costs by the budgeted activities. This rate can then be applied to unit of product.

WEEK 6 – Product & Service Costing

Product costing systems can be classified as either:
- **Job costing systems:** Appropriate for organisations which manufacturer unique, one-off items, where no two jobs are the same in terms of the materials, labour and overhead costs. Because every job is different, job costing systems specifically allocate, materials, labour and overhead costs to individual jobs. (eg engineering firms, construction/building firms…)
- **Process costing systems:** Appropriate for firms which mass produce a single line of product. Because each product is identical in terms of materials, labour and overhead costs, there is no need to specifically measure the cost of each item. Instead we can simply use an average cost by dividing the total costs of production by the total units produced. (eg soft drink manufacturers, food manufacturers…)
- **Operations costing/hybrid systems:** This is a cross b/w job & process costing systems. Appropriate for firms which manufacturer a range of different product lines in large batches. (eg car manufacturer – sedan, hatch, SUV… or tech companies that make a range of computers…). Operations costing systems assign costs such as materials to specific batches where different lines require different materials, and uses average costs for other items, such as where different lines require the same amount of labour.

Regardless of the form, all types of product costing systems have <u>3 basic functions</u>:
- Costs are recorded and accumulated;
- Costs are classified into different classes with direct materials, direct labour and overhead costs identified;
- Product costs are assigned to products.
  - These <u>product costs</u> are useful for many purposes:
    - To measure inventory, cost of sales and profit results for financial reporting purposes.
    - To provide information to support pricing and product mix decisions.
    - To provide important information to enable managers to evaluate how efficient production has been and support cost management initiatives.

Job Costing Systems
<u>Purchasing Direct Materials</u>:
  Dr Direct Materials, Cr Accounts Payable
<u>Direct Materials are used</u>:
  Dr Work-in-Process, Cr Direct Materials
<u>Direct Labour are used</u>:
  Dr Work-in Process, Cr Salaries and Wages Payable
<u>Overhead Costs</u>: During the period, firms incur overhead costs. These actual overhead costs will be accumulated in the overhead account during the period. Overhead costs are then applied to jobs based on pre-determined O/H rates that use forecasted overheads and activity drivers for the period. The benefit of using normal costing systems is that we can apply overheads in a timelier manner, however, at the end of the period we have normally over- or under-applied overhead. Then we must adjust entries at the end of the period.