ACCT2102 Mid-term Summary

Lecture 1 Introduction

1. Management accounting VS. Cost accounting
   - Management accounting
     "measures, analyses and reports financial and non-financial information that helps managers make decisions to fulfil the goals of the organization. Managers use management accounting information to *develop, communicate and implement strategy*."
   - Cost accounting
     Provides information for management accounting and financial accounting. Cost accounting "measures, analyses and reports financial and non-financial information relating to the costs of *acquiring or using resources in an organization."*

2. Management accounting VS. Financial accounting

	Management accounting	Financial accounting
Purpose of information	Help managers make decisions to fulfil organization's goals	Help external users make decisions related to the organization
Primary users	Internal users: managers of the organization	External users: investors, banks, regulators and suppliers
Focus and emphasis	*Future*-oriented: budgets	*Past*-oriented: historical information
Rules of measurement and reporting	No prescribed rules. Normally based on cost-benefit analysis.	Based on GAAP, Corp Act, ASIC and certified by external auditor in some cases
Time span and time reports	From *hourly information to 15 to 20 years*. Financial and non-financial reports on products, departments, territories and strategies	*Annual and quarterly* financial reports, primarily on the company as a whole.
Behavioral implications	Designed to influence behavior of managers and other employees	It may influence behavior wen compensation is based on financial statement

3. **Strategic Decisions**
   - <u>Cost leadership</u>:
     - Cost advantage
     - Competitors price
     - Productivity, production capacity, efficient
     - Sensitivity of customers to the price & quality
   - <u>Product differentiation</u>:
     - Premium price
     - Cost, competitor's prices
     - Price of the basic products

4. **Value Chain Analysis**
   - Research and development (R&D)
   - Design of products and processes
   - Production
   - Marketing (including sales)
   - Distribution
   - Customer service

5. **Decision Making**

Planning	1. Identify the problem and uncertainties
	2. Obtain information
	3. Make predictions about the future
	4. Make decisions by choosing among alternatives
Control	5. Implement the decision, evaluate performance, and learn

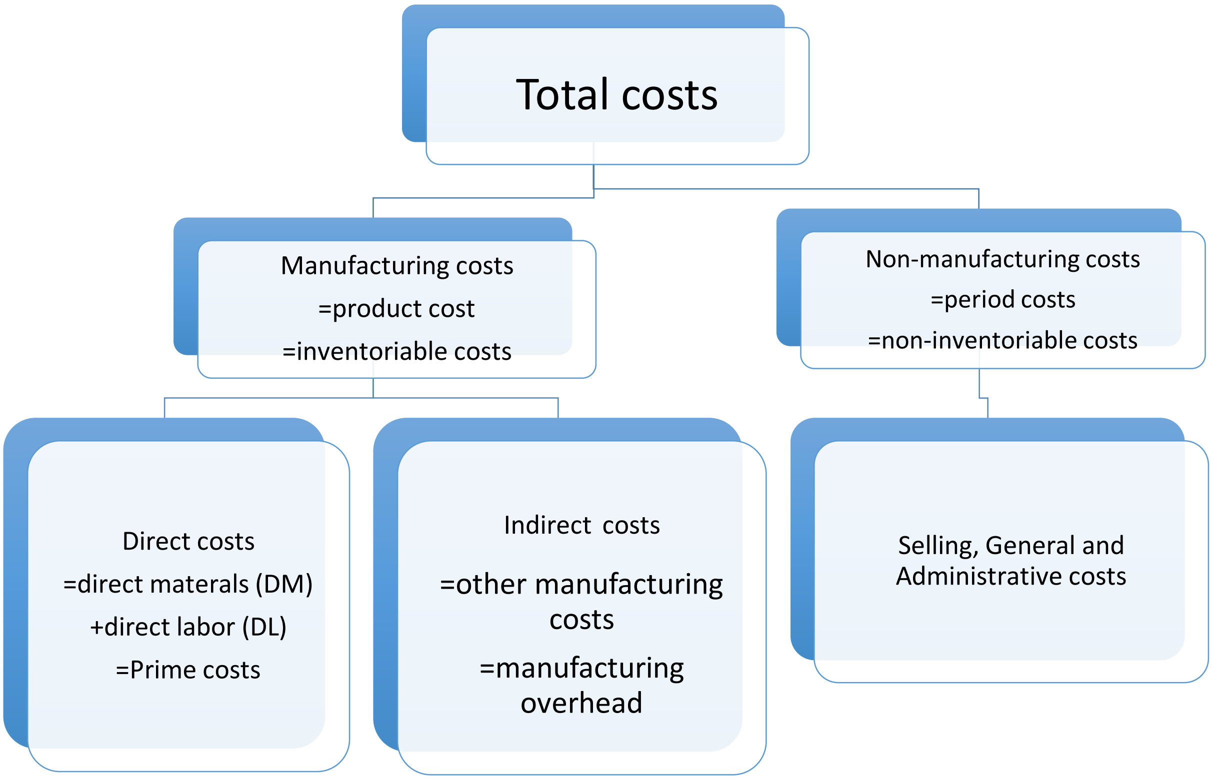
6. **Key Success Factors**
   - Costs and efficiency
   - Quality
   - Time
   - Innovation

7. **Key Management Accounting Guidelines**
   - Cost-benefit approach
     - Resources should be spent if the expected benefits to the company exceed the expected costs
   - Behavioral and Technical considerations
     - Behavioral: motivate managers and other employees to strive to achieve the firm's goals
     - Technical: provide managers with the appropriate and timely information to make the best decision
   - Different Costs for Different Purposes

8. Ethics
   - Competence
   - Confidentiality
   - Integrity
   - Credibility

9. Manufacturing VS. Merchandising VS. Service
   - Manufacturing: buy raw materials and uses labor and other costs to produce finished goods
   - Merchandising: purchase and sell tangible products
   - Service: provide services

10. Manufacturing cost



11. Total manufacturing costs = DM + DL + OH

Raw Materials
Beginning raw materials inventory +Raw materials purchased =Raw materials available for use in production -Ending raw materials inventory =Raw materials used in production

Manufacturing Costs
Direct materials +Direct labor +Manufacturing overhead =Total manufacturing costs

Work in process
Beginning work in process inventory +Total manufacturing costs =Total work in process for the period -Ending work in process inventory =Cost of goods manufactured

Cost of Goods Sold/Finished Goods

Beginning finished goods inventory
+Cost of Goods Manufactured
=Goods available for sale
-Ending finished goods inventory
=COGS

Income Statement of a Manufacturing firm
For the year ended 30 June 2016

Revenues
Less COGS:
  Beginning Finished Goods
  +COGM
  =Cost of goods available for sale
  -Ending Finished Goods
Gross Margin/Profit
Less Operating (Period) Costs
Operating Profit

Lecture 2 Cost Behavior and CVP Analysis

1. Cost behavior
   - How a cost will react (change) with changes in the level of business activity/volume

2. Cost driver
   - A variable, such as the level of activity or volume, that causally affects costs over a given time period

3. Linear Cost Function

$$y = a + bx$$

4. Variable cost VS. Fixed cost VS. Mixed cost

Cost	Statistics	In Total	Per Unit
Variable	Slope (b)	Changes As activity level changes	Constant Over wide ranges of activity
Fixed	Intercept	Constant Even when the activity level changes	Changes As activity level changes
Mixed	Linear Cost Function		

5. Cost Estimation Techniques
   - Industrial Engineering Method
   - Conference Method
   - Account Analysis Method
   - Quantitative Method

6. Determining how costs behave
   - ✓ The High Low Method

$$Unit\ variable\ cost = slope = \frac{difference\ in\ cost\ levels\ \Delta Y}{difference\ in\ activity\ levels\ \Delta X}$$

$$Total\ Cost = Total\ Fixed\ Cost + Variable\ cost\ per\ unit \times numberof\ units$$

   - ✓ Regression Analysis Method
     - A statistical method that measures the average change in the dependent variable (total cost) that is caused by a unit change in the independent variables (volume/activities)

7. Evaluate cost drivers
   - Economic Plausibility
   - Goodness of fit (R^2)
   - Slope of the regression line (b)

8. CVP

- ✓ Focuses on the relationship between cost, volume and profit
- ✓ The Contribution Margin Format

Contribution Approach
(cost organized by behavior)

Sales
-Variable expenses
=Contribution Margin
-Fixed expenses
=Net income

9. Methods of Analysis

- ✓ Equation Method

$$Revenue - Variable\ Costs - Fixed\ Costs = Profits$$
$$p * q - VCU * q - F = Profit$$

  - ➢ Break-even Point

$$p * q - VCU * q - F = 0$$

- ✓ Contribution Margin Method
  - ➢ Total Contribution Margin
  - ➢ Unit Contribution Margin

$$Unit\ CM = Unit\ SP - Unit\ VC$$

  - ➢ Break-even point

$$\text{BEP units} = \frac{Fixed\ Costs}{CM\ per\ unit}$$
$$\text{BEP\$} = \frac{Fixed\ Costs}{CM\ Ratio}$$

  - ➢ Contribution Margin Ratio (CMR/CM%)

$$CMR = \frac{USP - UVC}{USP}$$