Topics

Week 1: Management Accounting

Cost Concepts, Cost Behaviour, Job Costing & Absorption Costing

Variable Costing & CVP

ABC & Process Costing

Short-term Decision Making (Non-routine Decisions)

Budgeting Systems

Management Accounting Systems & Information Technologies

Application of Management Accounting Systems for Management Decision Making

Flexible budgeting & Variance Analysis

Long-term decision making – Capital Budgeting & Strategic Investment Decisions

Balanced Scorecard & Strategy Maps

Organisational Structure for Responsibility Accounting & Transfer Pricing

Short-term Decision Making (Non-routine Decisions)

Topic	*Relevant Information*
Non-routine decisions	These are shorter-term, tactical decisions that require a **choice that has an immediate or limited end in view** (focus is on current financial period and of utilising existing capacity) ▪ Key to successful decision making 1. Focus only on **relevant costs** *(examples: opportunity costs, avoidable costs, differential costs, or incremental costs) and relevant benefits (also called differential benefits or incremental benefits)* 2. Ignore everything else, meaning: a. **Sunk costs** and b. Future costs and benefits that **do not differ between the alternatives** ▪ Qualitative decisions override quantitative decisions ○ Can I cover my costs? ○ What is the most profitable? ▪ Costs that are relevant in one decision situation may not be relevant in another context. Thus, in each decision situation, the manager must examine the data at hand and isolate the relevant costs ▪ **Process for making non-routine operating decisions:** ○ **Step 1** – ***Identify problem*** ○ **Step 2** – ***Prepare for analysis:*** collect relevant information ○ **Step 3** – ***Quantitative analysis:*** apply the general rule and interpret the results ○ **Step 4** – ***Qualitative analysis:*** consider impact of decisions on capacity, quality, strategy, existing customers ○ **Step 5** – ***Making the Decision:*** evaluate each possible course of action and select the best one
Special Orders	A **special order** occurs when a customer places a **one-off request for a product or services** which may or not be part of normal operations Characteristics may include: ▪ Reduced price ▪ Personalisation ▪ Non-standard order size, or ▪ Special delivery characteristics **General Rule:** Does the Firm have **idle capacity**? ▪ If **yes**, accept special order when **Minimum Acceptable Price ≥ Incremental cost** *(Incremental VC and any relevant FC)* ▪ If **no**, accept special order when **Minimum Acceptable Price ≥ Selling Price** *(current)*
Keep or Drop	▪ When organisations provide **multiple products** (goods or services), they periodically review operating results for each product. ▪ Financial statement data are generally used in these calculations, but managers need to separate relevant and irrelevant cash flows. To do this, they generally need to **develop distinct cost functions for each product**, product line or segment **General Rule:** Keep product/service/business segments when **Total Contribution Margin ≥ Avoidable FC** ▪ To identify and estimate ***avoidable fixed costs***, we analyse the nature of the fixed cost and its relation to the two alternatives (keep or drop). For

	example, a manufacturing facility that produces a number of products is unavoidable if only one product is dropped.
Make or Buy	**Insource or Outsource:** ▪ Outsourcing is the practice of finding outside vendors to supply products and services *(the **buy** option)* ▪ Insourcing is the practice of providing the good or service from internal resources *(the **make** option)* **General Rule:** Make or buy according to option with the lowest relevant costs **Make** when **Relevant Costs < Buy Relevant Costs** **Buy** when **Relevant Costs < Make Relevant Costs** *RC for make decisions can also include opportunity costs
Managing constrained resources	▪ When a company faces no constraint, then products or services with the highest CM per unit should be emphasised. ▪ When a company is faced with constrained resources however, a decision between two alternatives must be made: 1. Maximise CM within the constraint; or 2. Incur extra costs to relax the constraint by: i. Purchasing goods or services from outside; or ii. Adding internal capacity/redesigning to use existing capacity more efficiently **General Rule:** Either/or? 1. Maintain constraints but choose product with: **> CM/unit of CR** 2. Relax constraints, where: **TC ≤ Current Costs + CM/unit of CR** **Note 1:** As the VC/unit approaches the SP, managers become indifferent to purchasing more of constrained resource, so long as: ▪ Company foregoes sales (if constraints not relaxed) ▪ FC are unaffected by short-term decisions made to relax constraints ▪ Managers want to maximise profits in the short-term ▪ Sales of one product don't affect other products **Note 2:** A ***bottleneck*** is any process/part/machine that limits capacity. To maximise use of bottleneck resources, choose products with **> CM per bottleneck hour**
Qualitative factors important to non-routine/short-term decision making	**Managers make higher-quality decisions when** they use higher-quality information and higher-quality decision processes. 1. Three major factors affect the quality of information: 1. Uncertainty of information 2. Timeliness of information 3. Assumptions made 2. Three major factors affect the quality of the decision processes 1. Decision-maker bias 2. Sensitivity analysis 3. Prioritisation
Joint products and costs	▪ **Joint costs** are costs that are common to joint products, and that are incurred prior to the **split-off point** ▪ **Separable costs** are costs incurred after the split-off point. ▪ **Joint products** are two or more products made in the same production process. ▪ Joint products can be one of two types: ○ A **main product** *(product with > sales volume)*