

ACCT20001 – Accounting for Management Decisions

Study Notes

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1 Management accounting and value

A Woolworths distribution centre in Melbourne's west does not wait for an annual report to decide how many pickers to roster on a Thursday night, whether a store order should be case-picked or left on a pallet, or whether a slow-moving line still earns its slot in the pick face. A public hospital does not wait for a general purpose financial report to decide whether an additional theatre list can be staffed, or whether a diagnosis-related group (DRG) is absorbing more nursing hours than the case-mix payment can carry. A Qantas route planner does not price a Melbourne–Perth shoulder-day service from last year's group profit. Those choices use cost information that is designed, timed and cut to the decision. That is the work of management accounting.

Management accounting identifies, measures, analyses and communicates cost and other information so that managers can plan, control and decide. The primary audience is inside the organisation. There is no statutory format, no mandatory measurement basis, and no external auditor of the internal pack. The constraint is cost–benefit: the system should change a decision, or improve the use of resources, by more than it costs to run. The unit of analysis is not “the reporting entity.” It is a product, a service, a customer, a route, a DRG, a store order, a process, a responsibility centre, or a combination of those.

■ Definition

A *cost management system* is the set of methods, records and reports that traces or allocates the cost of resources to the objects managers actually manage, and that then uses those costs to influence how resources are acquired, consumed and dropped. Technical design (how costs are classified, pooled and attached) and use (how the numbers enter plans, controls and decisions) are one system, not two subjects.

The subject is therefore not a second pass at financial reporting. External reports remain important as a stewardship language for investors and lenders; they are not the design brief for a cost system. Inventory cost that satisfies an accounting standard can still be the wrong number for a special-order decision. A fully absorbed unit cost can still bury the unused capacity that a hospital or a university school is paying for. The skill is to know which cost is for which question.

1.1 Customer value and shareholder value

Organisations spend resources because someone, somewhere, is supposed to be better off. In a for-profit firm the residual claim is the shareholders'. In a public hospital the residual claim is the public's, expressed through a funding formula and a clinical mission. In a not-for-profit the residual claim is the mission. In every case the cost system is a map of how resources become outcomes.

■ Definition

Customer value is the difference between what the customer receives (product attributes, service, reliability, time) and what the customer gives up (price, waiting, hassle, risk). *Shareholder value* is created when the organisation earns returns above the opportunity cost of the capital tied up in its resources. The two are linked: customers who do not receive value leave; an organisation that cannot convert customer value into a surplus eventually loses the capacity to serve.

Value is not “being cheap” and it is not “being excellent” as slogans. A cost-leadership strategy creates value by delivering a product the customer will buy at a cost the firm can sustain. A differentiation strategy creates value by attributes the customer will pay for, at a cost that still leaves a surplus. A cost system that cannot tell a manager which activities the customer will pay for, and which activities are only internal comfort, will spend as if every activity were equally valuable.

Strategy	What the cost system must show	Typical failure
Cost leadership	Cost by activity and by driver; unused capacity; batch and variety penalties	A plant-wide rate that hides the cheap run
Differentiation	Cost of the attributes the customer pays for, and of the ones they do not	Spending on internal comfort labelled as “quality”
Public / mission	Avoidable cost of a program; outcome per scarce resource	Levy per student or per case used as a closure rule

■ Key concept

Cost information creates value only when it changes a resource decision: drop a product, redesign a process, accept a route, keep a DRG, raise a price, cut a batch size, or leave a resource idle on purpose. A more precise unit cost that nobody uses is a system cost, not a management benefit.

1.2 The value chain as a cost map

A convenient way to see where costs sit is the *value chain*: the linked set of activities through which an organisation turns resources into customer value. A manufacturer's chain typically runs through research and design, inbound logistics, operations, outbound logistics, marketing and sales, and after-sales service, with support activities (procurement, technology, human resources, infrastructure) sitting across them. A supermarket DC is a logistics chain: receive, store, replenish, pick, despatch. A hospital chain is referral, diagnosis, treatment, recovery, discharge and follow-up. A university school's chain is curriculum design, teaching delivery, assessment, student support, and research.

Design Specifications, target cost	Inbound Receive, inspect, store	Operate Convert resources	Outbound Pick, ship, route	Market Price, sell, brand	Service Warranty, recover
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Support: procurement · technology · people · infrastructure (including unused capacity)

A generic value chain. Cost objects (a SKU, a job, a DRG, a route) cut vertically through these activities. Support costs are resources; they become costs of objects only when a driver links them.

Two implications follow. First, a large share of a product's life-cycle cost is committed in design, before operations ever run. Target costing (section 10) attacks that commitment. Second, many “overheads” are not a fog. They are named support activities that can be managed if the system names them.

1.3 Planning, control and decision: three uses of the same resource map

The same cost system feeds three managerial uses, and the three can pull in different directions.

Use	Question	Cost that fits	What fails
Planning	What resources will we need, and what should things cost?	Budgets, standards, estimated cost functions	Last year's absorbed unit cost, unadjusted for volume
Control	Did we use resources as planned, and why not?	Flexible budgets, variances, non-financial drivers	A static budget that treats volume as a virtue
Decision	Which alternative creates more value from here?	Relevant (future, differing) costs and revenues	Sunk costs; allocated un-avoidable costs

A job-cost sheet that is excellent for valuing work in process can still be the wrong sheet for a keep-or-drop decision, because it carries allocated facility costs that will not go away. A DRG cost that is excellent for comparing