

# Lecture 1

- Cost management- actions management take that increase value for customers or lower costs for product/service (not minimize costs, maximising value)
  - in short-run- some costs cannot be varied (fixed cannot be changed easily)
  - and in long-run- all costs can change
    - planning- budgets
    - and control- action (accounting system) and performance evaluation (performance reports)
- Management Accounting- measures and reports financial information intended to assist managers in fulfilling goals or organisation, used by internal users, focussing on certain production areas, no external regulations govern their preparation, very detailed information included in reports, produced regularly (hourly/daily), include past, future and present information
- Financial Accounting- used by external users, backward-looking, focussing on organisation as a whole, reports prepared according to guidelines, overview of performance and hence lacks detail, most commonly produced annually
- Cost Accounting- measures and reports financial and non-financial information related to acquisition and consumption of resources, provides information for management and financial accounting
- Cost-benefit considerations- limits quality and quantity of information
- Decision making:
  1. Clarify objective
  2. Specify criteria
  3. Identify alternatives
  4. Evaluate and compare cost benefits
  5. Make decision
  6. Re-evaluate decision
- Relevant Information:
  - Timely- exclude costs already incurred or sunk costs, future costs relevant
  - If similar between alternatives, then not relevant
  - Quantitative and qualitative information both relevant
- Planning- choosing goals, predicting results under various ways of achieving goals and deciding how to attain desired goals
- Control- action that implements planning decision and deciding on performance evaluation and the related feedback that will help future decision making
- Management by Exception- concentrating on areas not operating as expected
- Scorekeeping- collecting and reporting data to all levels of management
- Attention Directing- make opportunities and problems visible that need focus
- Problem Solving- comparative analysis for best alternatives in relation to goals

## **Accounting Systems:**

- Purpose- customer focus, value-chain and supply-chain analysis, key success factors, continuous improvement and benchmarking
- Provide information for- formulating overall strategies and long-range plans, resource allocation decisions as product and customer emphasis, cost planning and cost control, performance measurement and meeting external regulatory and legal reporting obligations

# Lecture 2

- Cost object- anything for which a separate measurement of costs is required (product/service, customers, projects, departments, whole organisation)
- Cost driver- factors that affect total cost  
To measure cost:
  - Accumulation- collection of cost data in some organised way
  - Assignment- tracing of direct costs (related to cost object and economically feasible to trace) and allocation of indirect costs (related to cost object but not economically feasible to trace), affected by materiality of cost, available information and design of operations
- Fixed Costs- do not change in relation to volume (within range)
- Variable costs- total cost changes with output volume
- Relevant Range- range of cost driver in which cost and level of activity is valid
- Opportunity Cost- value of best alternative forgone
- Capitalised Costs- recorded as asset when incurred, assumed to provide future economic benefits to company
- Revenue Costs- recorded as expenses for period when incurred

## Types of Organisations:

- Service- provide intangible products
  - $\text{Operating Income} = \text{Revenues} - \text{Expenses}$
- Merchandising- provide tangible goods purchased in same basic form from supplier,
  - $\text{Cost of Inventory (acquisition to inventory)} = \text{Net Purchases} + \text{Freight In}$
- Manufacturing- tangible goods that have been converted to different form from that purchased from supplier, stages of production; raw materials inventory, work-in-progress inventory, finished goods inventory
  - $\text{Cost of Inventory (acquisition of inventory)} = \text{Net Purchases} + \text{Freight In}$
  - $\text{Costs of Conversion (conversion of inventory eg. direct labour, indirect materials, manufacturing rent, insurance and depreciation)} = \text{Direct Labour} + \text{Manufacturing Overheads}$
- Inventoriable Costs- associated with purchase of goods for resale or conversion of materials and all manufacturing costs for sale of goods (accounting standard (AASB 102))
  - $\text{COGS} = \text{Open Finished Goods} + \text{Goods Manufactured (Opening Balance} + \text{Direct Materials} + \text{Direct Labour} + \text{Manufacturing Overheads} - \text{Closing Balance)} - \text{Closing Finished Goods}$
- Operating Costs- costs associated with generating revenues other than COGS  
Inventoriable costs make-up value of inventory in financial statements.
  - Prime Costs (Direct Materials and Direct Labour) and Conversion Costs (Direct labour and manufacturing overheads)
- Valuation of inventory determines cost of goods sold and hence profit
- Stocks- measured at a specific point in time
- Flows- measures changes over a period