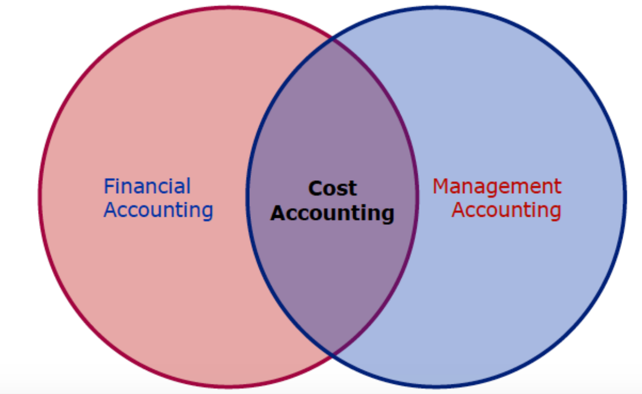
Week 1 Accounting Information for Management

❖Differentiate between financial accounting and managerial accounting, and explain how cost accounting is related to both. (L 1 slide 14)

	Financial Accounting	Management Accounting
Users	Primarily External (investors; bank)	Primarily Internal (manager)
Time focus	Historical perspective	Future/Current emphasis
Verifiability VS Relevance	Emphasis on verifiability (audited)	Emphasis on relevance to mgmt decision making (NOT audited; less conflict of interest)
Precision VS Timeliness	Emphasis on precision (exact number)	Emphasis on timeliness (NOT precision)
Subject	Primary focus is on the whole organisation (not into specific product e.g. cost performance of Apple Companies across the world)	Focus on segments of an organisation (information broken down to products e.g. pricing <=> cost of each part of the iPhone)
GAAP	Must follow GAAP and prescribed formats	Need not follow GAAP / any prescribed format
Requirement	Mandatory for many corporations	Not Mandatory



Cost Accounting <=> F.A. & M.A.

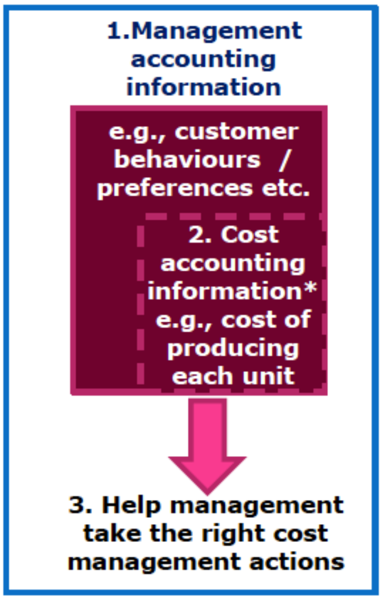
-Measures and reports financial and non-financial information related to the organisation's acquisition and consumption of resources.

-It provides information for both management and financial accounting

(e.g. C.A. provides cost per unit for F.A. to determine profit and calculate inventory & pricing strategy & how to reduce cost for M.A.)

❖Explain what is meant by "cost management" and how it is related to managerial accounting and cost accounting.

- Cost Management is the actions management take in (1) short-run and long-run; (2) planning&control of the costs; (3) increase value for customers and lower the costs of products/services
- Cost Accounting (focuses on producing information related to the acquisition and consumption of resources) is a subset of Management Accounting (produces information to help management make decisions)
- In order to take the right cost management actions (e.g. outsource production/stop serving a customer), management accounting information is required (M.A. information includes C.A. information

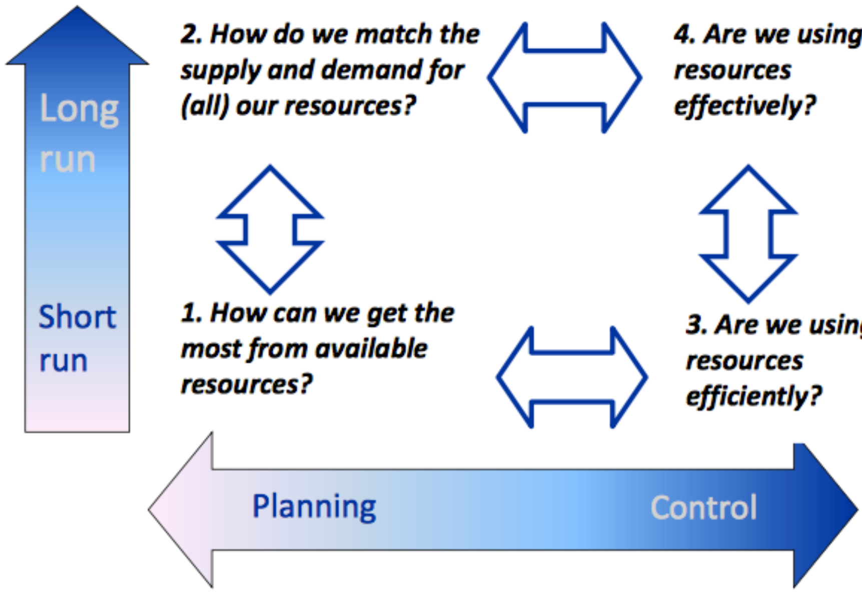


❖Differentiate between long-term and short-term from a cost management perspective.

- Short run: where some of the costs/input can NOT be varied (due to its nature / commitments already made; e.g. size of production facility, number of machinery, equipment, production process)
- Long run: where all costs/inputs CAN be varied (e.g. more flexibility, contracts can be changed)

❖Explain the distinction and connection between planning and control.

- Planning: steps will be taken in the future to ensure organisation achieve its objectives (profit/ non-for-profit <=> profit target/university ranking)
- Control: a.Action /b.Performance-evaluation; ensure plan is executed & evaluate performance against the plan <=> better control



1. SR Planning: how to get the most from available resources (based on the constrain; e.g. can NOT change input / workers)
2. LR Planning: how to match the supply and demand for our resources (CAN change input; e.g. if demand excessed supply last year => LR plan improves production capability by setting up production chain overseas)
3. SR Control: are we using resources efficiently (evaluate performance & maximise output with the given input we have)
4. LR Control: are we using resources effectively (allocation of resources; e.g. best use of additional cash)

❖Describe the seven-part decision framework – including the concept of relevant information and costs vs benefits of the alternatives considered

1. Clarify the decision problem / objective (make sure everyone is on the same page; e.g. aim to increase profit/revenue => clarify difference between profit & revenue => reduce cost/sales)
2. Specify the decision criteria (e.g. generate revenue within 3 months with no more than $3000 budget)
3. Identify (viable) alternatives
4. Collect relevant information <=> which course of action to take (expand in country A/B; launch product A/B)
   - Already incurred/committed to (usually NOT relevant)
   - Future cost (usually relevant)
   - Sunk cost (NOT relevant, already incurred in & cannot be changed)

- If similar between alternatives (NOT relevant - if both A/B need to create a new team, costs will incur in both and therefore not relevant)
- Both quantitative and qualitative information can be relevant (e.g. relevant information when choosing between two smart phones: cost - quantitative; feature - qualitative; resale value - could be quantitative)

5. Evaluate and compare costs and benefits of each alternative
6. Make a decision. Choose the one with the highest net benefit (benefit-cost; even doing nothing)
7. Re-evaluate decision (afterwards, did I make the right decision)

WEEK 2 Fundamental Cost Concepts & Resource Flow and Basic Cost Classification

❖Explain the concept of a cost object and how specification of the cost object is critical to classification of costs.

- Cost Objective: Anything for which a separate measurement of costs is required (anything wants to have a cost of <=> organisation can choose which cost objectives e.g. Boeing based on customer)

- Examples
  - Products and / Services (coffee)
  - Customers (depending on whether you have various customers - e.g. Qantas VS Jetstar have different requirements on plane for Boeing to manufacture)
  - Projects (e.g. how much does it cost to do auditing for ANZ / Commonwealth)
  - Particular processes
  - Segments of the value chain (e.g. how much does it cost for Apple R&D vs Design)
  - Divisions / Departments (e.g. Faculty of Economics vs Faculty of Management)
  - An organisation as a whole (e.g. total costs to run the business)

- Classification of costs

1. Depends whether it is traced to the cost object (easy to know direct costs => 'trace' ; hard to know indirect costs => 'allocate')

- Two factors determine whether to trace the cost
  - *Economic feasibility* (NOT chase: cost of tracing hair gel used in each haircut > benefits of doing so ; chase: cost of tracing an expensive hair dye used in hair cut < the benefits of doing so)
  - *The cost object chosen* (e.g. the salary of factory supervisor that supervises 5 different production lines in Toyota; traceable if cost objective = a particular Camry production line; NOT traceable if cost objective = a single unit produced, hard to chase how much time supervisor spent on each car)

❖Explain the key characteristics that distinguish direct costs from indirect costs. (L2 s20, s23)

- *Direct Costs (chase)*: *direct materials* (usually become a physical part of the product); *direct labour* (work done to produce a given product or service) => no estimation, exact cost
- *Indirect Cost (do NOT chase)*: *indirect materials* (lubricants, cleaning materials, fuels, other items consumed in mfg. or delivery of services); *indirect labour* (supervision-don't make product, support overhead, maintenance, security); *other* (licences, rent, insurance, utilities, depreciation of factory equipment) => allocation cost is usually cheaper

❖Explain cost drivers, variable costs and fixed costs. (L2 s21, s24)

2. Cost behaviour : how costs change in relation to changes in the volume of the cost object

- *In total (fixed cost)*: if a cost does not change in total when volume changes, it must change on a per unit basis
- *Per unit (variable cost)*: if a cost does not change on a per unit basis when volume changes, it must change in total