

THE CHANGING WORLD

In 1997 the research survey conducted on profile of CAMA users in 2007 by IMA found

- CEO and COO will use it
- Strategists and internal advisors
- Key role in cross functional team
- Use advanced technology
- Continuous learners

What does it cost you to buy your friend an Hawaiian Dark Chocolate Ice cream from Baskin Robbins shop?

Think about it

To perform managerial functions one needs information. Information regarding the financial aspect permeates into every decisions of the manager. Therefore relevant information needs to be extracted and presented in the right format for each event.

For e.g. Should we install SAP /Baan for ERP What should our sales be this year Are we sinking If yes why? How will my decision affect our bottom lines.

AN INTRODUCTION

- ☐ WHAT IS COST
- COST TERMINOLOGIES
- ROLE OF INCREMENTAL ANALYSIS
- EVALUATION
- CONTROLS AND AUDIT
- DECISION MAKING

Objectives

- 1. State the primary goal of managerial accounting.
- 2. Describe how budgets are used in planning
- 3. Describe how performance reports are used in the control process.
- 4. Distinguish between financial and managerial accounting.
- 5. Define cost terms used in planning, control and decision making.

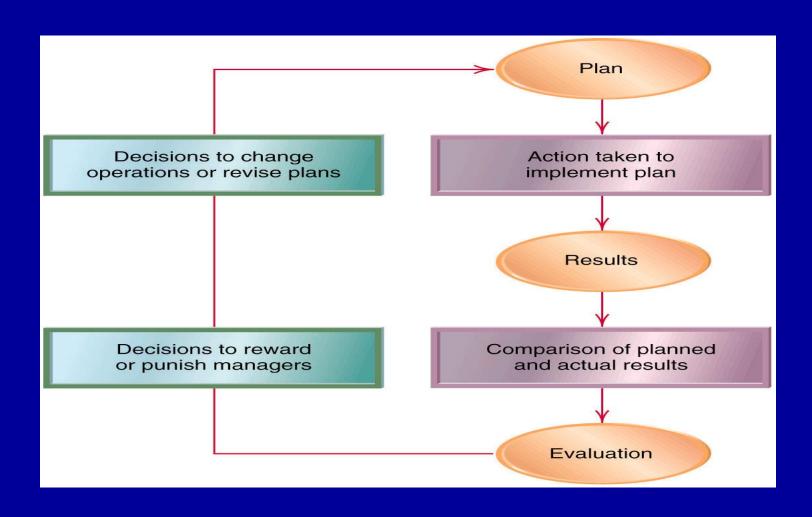
Objectives (continued)

- 6. Explain two key ideas in managerial accounting.
- 7. Discuss the impact of information technology on competition, business processes, and the interaction companies have with suppliers and customers.
- 8. Describe a framework for ethical decision making.

Goal of CAMA IN AIDING MGT FUNCTIONS

- 1. Planning
- 2. Control
- 3. Decision Making

Planning and Control Process



What is Cost?

- REPRESENTS A SACRIFICE FORGONE OR A RELEASE OF SOMETHING OF VALUE
- COST = USAGE x PRICE

What is cost?

 COST IS A MEASUREMETN IN MONETARY TERMS OF THE AMOUNT OF RESOURSES USED FOR SOME PURPOSE.

COST DEPENDS ON

- VOLUME LEVEL
- NUMBER OF PRODUCTS
- WORK PROCESSES
- JOBS
- RESPONSIBILITY
- CONTROL

COST UNIT

- DEVICE FOR THE PURPOSE OF BREAKING UP OR SEPERATING COSTS INTO SMALLER SUB DIVISIONS ATTRIBUTABLE TO PRODUCTS OR SERVICES
- EXAMPLE- NUMBER OF UNITS
- TIME- PER HOUR
- SERVICE RENDERED. I HAIRCUT

COST AND COSTING

- COST -SACRIFICE FORGONE
- RELEASE OF VALUE
- VALUE OF ECONOMIC RESOURCES USED IN A ACTIVITY
- COSTING REFERS TO ASCERTAINING, MEASURING, ACCUMALA TION OF ECONOMIC CONSEQUENCE OF CARRYING OUT AN ACTIVITY.

COSTING REFERS TO

- ASCERTAINMENT
- MEASUREMENT
- ☐ ACCUMALATION OF COSTS OF ACTIVITIES, PROCESSES, PRODUCTS AND SERVICES.

DEFINITION OF COST ACCOUNTING BY ICMA

IS THE CLASSIFYING, RECORDING & APPROPIATE ALLOCATION OF EXPENDITURE FOR DETERMINATION OF THE COSTS OF PRODUCTS/SERVICES AND FOR PRESENTATION OF SUITABLY ARRANGED DATA FOR THE PURPOSES OF CONTROL AND GUIDANCE OF MANAGEMENT.

COST ACCOUNTING DEFINED...

IS THAT PART OF MANAGEMENT ACCOUNTING WHICH ESTABLISHES BUDGETS, STANDARD COSTS AND **ACTUAL COSTS OF** OPERATIONS, PROCESSES, DEPARTMENTS OR PRODUCTS AND ANALYSIS OFVARIANCES, PROFITABILITY AND SOCIAL USE OF FUNDS.

WHY?

- COST ACCUMALATION
- COST CLASSIFICATION
- COST ALLOCATION
- COST ABSORPTION

FOR MANAGERIAL PLANNING AND CONTROL.

FOR DECISION MAKING

NATURE

- SPECIFIC
- VOLUNTARY
- OBJECTIVE
- CONTROL SYSTEMS
- REPORTS
- P/L OF EACH
- UNIT BASIS

- MANUFACTURING
- INTERNAL
- NONMONETARY
- ESTIMATES TOO
- REFERENCE
- EFFICIENCY
- STOCK VALUATION
- TECHNIQUES AND RULES BASED ON MANAGEMENT POLICIES.

FUNCTIONS

- ☐ ASCERTAIN COST PER UNIT
- PROCESS COSTS/OPERATIONAL COSTS
- IDENTIFY SOURCES OF WASTEAGES
- PRICING GUIDE
- MAXIMISE PROFITS INDIVIDUALLY
- STOCK CONTROL
- ADVISE MGT IN PLANNING, CONTROL, DM
- INFORMATION SYSTEM
- INTERNAL; AUDIT
- BONUS-EVALUATION

COST CLASSIFICATION

- PROCESS OF GROUPING COSTS ACCORDING TO COMMON CHARACTERISTICS
- NATURE-material, labour, expenses
- □ FUNCTION-production,mkting,selling
- DIRECT/INDIRECT
- VARIABILITYfixed, variable, semi
- Different costs for different purposes!!!

COST CLASSIFICATION CONT...

- CONTROLLABILITY
- NORMALITY
- CAPITAL/REVENUE
- □ TIME-sunk/historical/estimates
- PLAN-standards, budgets
- DECISIONSreplacement, avoidable/marginal/out of pocket/opportunity

COST OBJECT

- REPRESENTS A FUNCTIONAL ACCOUNT OF EXPENDITURE
- ☐ SINGLE UNIT OF OUTPUT OR A SINGLE DECISION SITUATION
- UNIT OF OUTPUT, DECISION CENTRE, PERIOD ARE EXAMPLES OF COST OBJECTS.

COST CENTRES

- COST OBJECTIVES ARE ALSO REFERRED TO AS THIS.
- SMALLEST SEGMENT OF ACTIVITY/AREA/RESPONSIBILITY FOR WHICH COSTS ARE ACCUMALATED, FOR ASCERTAINMENT AND CONTROL
- ☐ CAN BE A DEPTT, ITEM, OR A PERSON TOO
- ☐ CAN BE ANY NUMBER TOO
- PRODUCT COST CENTRES AND SERVICE COST CENTRES

THESE ARE NOT CONSIDERED AS COSTS HERE

- RELATING TO CAPITAL ASSETS
- CAPITAL LOSSES
- DISTRIBUTION OF PROFITS
- PURE FINANCIAL MATTERS LIKE INCOMETAX, DIVIDENDS, ABNORMAL WASTAGE OF MATERIAL, ABNORMAL IDLE TIME
- CAPITAL INTEREST, SHARE DISCOUNTS, DEBENTURES INTERESTS, AMORTIZATION OF GW, PE, DEB INTEREST, UNWRITING COMMISION, APPROPIATIONS OF PROFITS

COST METHODS AND TECHNIQUES

METHODS

BASED ON PRODUCTION
ACTIVITY & COST
COLLECTION
A.JOB COSTING
B. PROCESS COSTING
CONTRACT COSTING
BATCH COSTING
OPERATING COSTIONG

TECHNIQUES

BUDGETING
STANDARD COSTS
MARGINAL COSTS
DIFFERENTIAL COSTING
UNIFORM COSTING

LIMITATIONS

- COSTLY
- ALLOCATION PROBLEMS
- MANY METHODS
- LACKS UNIFORM PROCEEDURE

COST COMPONENTS

- MATERIALS
- LABOUR
- OVERHEADS

C = fx(m.l.o.)

ALL COMPONENTS ARE DIVIDED INTO DIRECT AND INDIRECT

DIRECT EXPENSES

- WHICH CAN BE IDENTIFIED AS BELONGING EXCLUSIVELY TO A PARTICULAR JOB/PROCESS/PRODUCT /UNIT/SERVICE.
- DIRECT MATERIALS
- DIRECT LABOUR
- DIRECT OVERHEADS.

INDIRECT EXPENSES

- NOT INCURRED EXCLUSIVELY FOR A PARTICULARJOB/PROCESS AND SPREAD ON THE WHOLE.
- INDIRECT MATERIAL
- INDIRECT LABOUR
- INDIRECT OVERHEADS.

EXAMPLES OF DIRECT EXPENSES

- RAW MATERIALS CONSUMED
- WAGES PAID
- CARRIAGE INWARDS
- CUSTOM DUTIES INCURRED ON RAWMATERIALS
- EXCISE DUTY
- ROYALTY

DIRECT EXPENSES CONT.....

- ARCHTECT OR SURVEYORS FEES
- COST OF RECTIFYING DEFECTIVE WORKS
- EXPERIMENTAL EXPENSES ON PILOT PROJECT
- DESIGNING
- DRAWING FOR MODELS
- MACHINERY HIRE CHARGES IN CONTRACTS.

DIRECT EXPENSES CONT....

- MANUFACTURING
 SUPERVISION, MAINTENANCE, TOOL
- MEASURED ON HOURS SPENT DIRECTLY ON THE JOB
- operating machinery/handling raw material

INDIRECT EXPENSES

- ARE COSTS WHICH CANNOT BE CHARGED SPECICALLY TO A JOB-FACTORY, OFFICE, SALES ETC.
- INDIRECT MATERIALS
- ACCESSORIES
- FOREMENT/SUPERVISOR SALARIES
- OFFICE RENT
- ELECTRICITY, POWER, WATER

LETS RECAPTURE

COST:

A SACRIFICE FOR A PURPOSE MEASURED IN MONETARY TERMS.

COST OBJECTIVE:

AN ACTIVITY /RESOURCE FOR WHICH MEASUREMENT OF COST IS DESIRED. Eg.-deptt,product,territory

Lets recapture cont....

- Cost objectives are also referred too as <u>COST</u>
 <u>CENTRES-</u> RESPONSIBILITY CENTRES FOR WHICH COSTS ARE ACCUMALATED.
- COST ACCUMALATION

COLLECTING COSTS BY NATURAL CLASSIFICATION

COST ALLOCATION

TRACING &REASSIGNING COSTS TO ONE OR MORE COST OBJECTIVES

COST SHEET

- DIRECTMATERIAL +
- DIRECT LABOUR +
- DIRECT EXPENSES

PRIME COST



COST SHEET CONT...

- PRIME COST +
- FACTORY EXPENSES +
- WIP CONSUMED

FACTORY COST

COST SHEET CONT.....

- FACTORY COST +
- OFFICE COSTS +
- FINISHED GOODS CONSUMED

OFFICE COST/COST OF PRODUCTION

COST SHEET CONT.....



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OFFICE COST +
SELLING AND DISTRIBUTION COSTS
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COST OF SALES + PROFITS

SALES

OVERHEADS TREATMENT



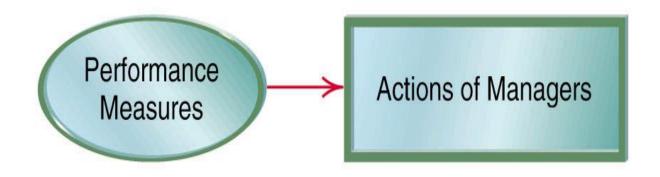
- CLASSIFICATION
- COLLECTION
- ANALYSIS- ALLOCATE AND APPROPIATION TO COST CENTRES
- ABSORPTION- RATE PER COST UNIT.

Two Key Ideas

- 1. Incremental Analysis
- 2. You Get What You Measure!

You get what you measure!

Performance Measures Drive Behavior



Incremental analysis

- Refers to analysing information on incremental basis.i.e dividing costs into fixed and variable.
- Using the difference of sales and variable costs called contribution in decision making analysis
- Only contributions and differentials are used.

EVALUATION

• CONTROLLING FUNCTIONS ARE AIDED BY EVALUATION REPORTS BASED ON COMPARISION OF ACTUALS TO BUDGETS,STDS AND VARIANCES IDENTIFIED.

The Information Age and Managerial Accounting

- 1. The Value Chain
- 2. Value Chain Management
 - a. ERP
 - b. SCM
 - c. CRM

Ethical Considerations

- 1. Ethical and Unethical Behavior
- 2. A Framework for Ethical Decision Making

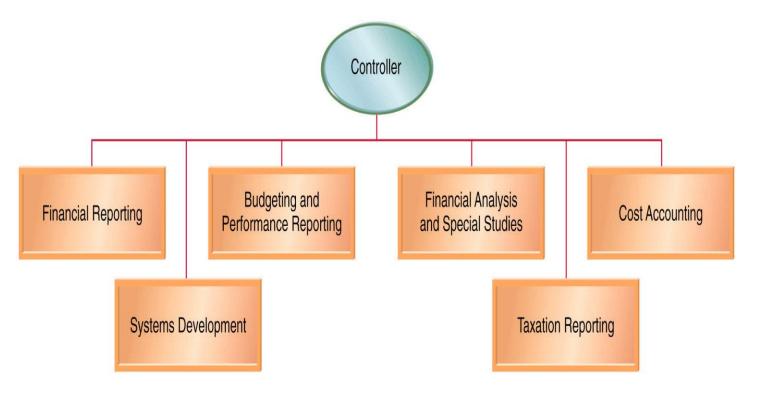
When Evaluating a Decision Ask:

- 1. What decision alternatives are available?
- 2. What individuals or organizations have a stake in the outcome of my decision? A Framework for Ethical Decision Making
- 3. Will an individual or an organization be harmed by any of the alternatives?
- 4. What alternative will do the most good with the least harm?
- 5. Would someone I respect find any of the alternatives objectionable?

When Deciding On a Course of Action:

- 1. At a "gut level," am I comfortable with the decision I am about to make?
- 2. Will I be comfortable telling my friends and family about this decision?

The Controller As the Top Management Accountant



FUNCTIONS

- FINANCIAL REPORTING
- BUDGETING
- PERFORMANCE EVALUATION AND REPORTING
- FINANCIAL ANALYSIS
- SPECIAL STUDIES & REPORTS
- COST ACCOUNTING
- TREASURY
- SYSTEM DEVELOPMENT
- TAXATION REPORTS

Other Top Functions

- 1. Treasurer
- 2. Chief Information Officer (CIO)
- 3. Chief Financial Officer (CFO)