

Management Accounting

Chapter 1

Financial Accounting

Financial reports, and financial accounting, are made for the externals as well as the internals of the company. The financial reports are mandatory. They're a tool for investors, shareholders, banks etc., to know what **has happened** inside the respective company they last period, year etc. This helps them invest, calculate credit-ratings or something third.

Management Accounting

Management reports, and management accounting, are made for the decision-makers within the firm. The management reports are not mandatory. They rely on this data to take beneficial choices **in the future**. This will allow the managers to 1) implement plans, 2) measure performance and 3) compare the performance to the actual planned performance. *This is the planning and control cycle.*

Decentralization

When having more departments, one must decentralize oneself as a firm. By doing this, you'll end up having line and staff positions.

Line: A person in a line position is directly involved with achieving basic objectives. Like a barista making coffee to satisfy the customer.

Staff: A person in a staff position support or provide assistance to multiple departments indirectly. Like the purchasing department, buying top tier coffee, so that the barista can serve the best coffee to satisfy the customer.

Environmental management accounting

Taking the environment into account, both helping the planet, the customer satisfaction and lowering the overall cost of the business at the same time. There are green regulations set up by the government but showing your interest in the environment is good for branding.

Chapter 2

General Cost classifications

We're focusing on what kinds of resources a firm is using in its production.

Manufacturing costs

Materials

- Direct materials (raw materials)
- Direct materials (non-final materials)
- Indirect materials (glue) -> part of overhead

Labour

- Direct labour (touch labour)
- Indirect labour (security guards) -> part of overhead

Renting out 800 cars would result in a total mixed cost of:

$$\text{Total mixed cost} = \$25.000 + \$3 * 800 = \$27.400$$

The fixed portion represents the basic minimum cost

The variable portion represents the cost of actual consumption.

The high-low method

The short explanation is to take 2 extremes, find the difference between them and divide that change of cost over the change of activity:

High: 8000 patients, costing 9800

Low: 5000 patients, costing 7400

$$\begin{aligned} \text{Variable} &= \frac{\text{Change in cost}}{\text{Change in activity}} \\ \text{Variable} &= \frac{\$9.800 - \$7.400}{8.000 - 5.000} \\ \text{Variable} &= \frac{\$2400}{3000} = \$0,8 \text{ pr. patient} \end{aligned}$$

Once we've found a way to calculate the variable cost, one can find the fixed cost:

$$\text{Fixed cost}(\text{high}) = \$9800 - (0,8 * 8000) = \$3,400$$

That means a function would look like this, Y being total mixed costs:

$$Y = \$3,400 + \$0,8 * X$$

The scatter-graph method

A more reliable way of analyzing mixed cost, using more than 2 datapoints, is the scatter-graph. The analyst draws a scatterplot and uses a regression line to include all datapoints somewhat equally.

The least-squares regression method

An even more reliable and more objective way of analyzing data. Instead of visual inspection, one uses formulas. This changes the function to:

$$Y = \$3,431 + \$0,759 * X$$

It can also be calculated in hand with the formula:

$$\begin{aligned} b &= \frac{n(\sum XY) - (\sum X) * (\sum Y)}{n(\sum X^2) - (\sum X)^2} \\ a &= \frac{(\sum Y) - b(\sum X)}{n} \end{aligned}$$

DM pr unit: 25.000

DL pr unit: 10.000

VOH pr unit: 2.000

Q2 Total: 37.000

Absorption cost income statement

	<u>Q1</u>	<u>Q2</u>
Sales	800,000	800,000
COGS	<u>430,000</u>	<u>400,000</u>
NI	370,000	400,000

Variable cost income statement

	<u>Q1</u>	<u>Q2</u>
Sales	800,000	800,000
COGS	<u>370,000</u>	<u>370,000</u>
Gross Margin	430,000	430,000
FOH	<u>60,000</u>	<u>60,000</u>
NI	370,000	370,000

Advantages of variable costing:

- Management finds it easy to understand.
- Consistent with CVP analysis
- Operating profit is closer to net cash flow.
- Consistent with standard costs and flexible budgeting
- Easier to estimate profitability of products and segments
- Profit is not affected by changes in inventory
- Impact of fixed costs on profits emphasized.
- No incentive for managers to increase production to appear more profitable

SUMMARY

The Sanac case applies TDABC in a complex distribution company as it made a strategic transition from a sales-driven company to a profit-driven one. The Sanac project team confronted complex contingencies in its operations. The company purchased from different vendors and provided varied services to different types of customers. Sanac also operated in a seasonal business and needed to use cost rates that accurately reflected peak and slack periods in capacity utilization.

Sanac's initial attempt to capture its complex, contingent operations with a conventional ABC model failed. Abandoning conventional ABC, the company adopted the time-driven approach because TDABC could drive costs by transactions, not just products and customers. The new time equations enabled the project team to reflect complex contingencies in resource-consumption times. The case has several examples of how to translate an extensive verbal description of a process, such as would typically be provided by a frontline employee, into a time equation using Boolean logic.

Sanac's TDABC model, as at Kemps, led to management's taking quick actions to improve inefficient processes and transform unprofitable customer relationships. The near-term profit improvements led to immediate benefits, as Sanac became a highly attractive acquisition candidate to a large competitor.

Chapter 9

Activity-based costing (ABC)

We're ruling out the direct material and or labor since this is easily traceable. We're trying to come up with a way to trace the non-direct cost back to a specific division or product.

To do this we need drivers of activities or cost-drivers

- Machine hours
- Labor hours

It's then possible to divide the overhead or the non-direct cost and find a **rate**.

ABC vs. Traditional costing (5 points)

1. Traditional costing has 1 plantwide rate used to calculate overhead rate for everything and only allocate product costs. Like absorption costing both DM, DL, VMOH and FMOH is included. Everything besides period costs.

$$Rate = \frac{Overhead}{MH \text{ or } LH}$$

2. Activity based costing has multiple rates (activity rates) based on different cost-pools for example for painting, baking, processing etc. ABC can also allocate period cost (SGA)