

wbs

WARWICK BUSINESS SCHOOL
THE UNIVERSITY OF WARWICK

For the Constantly Curious

Darren Sparkes
Associate Professor



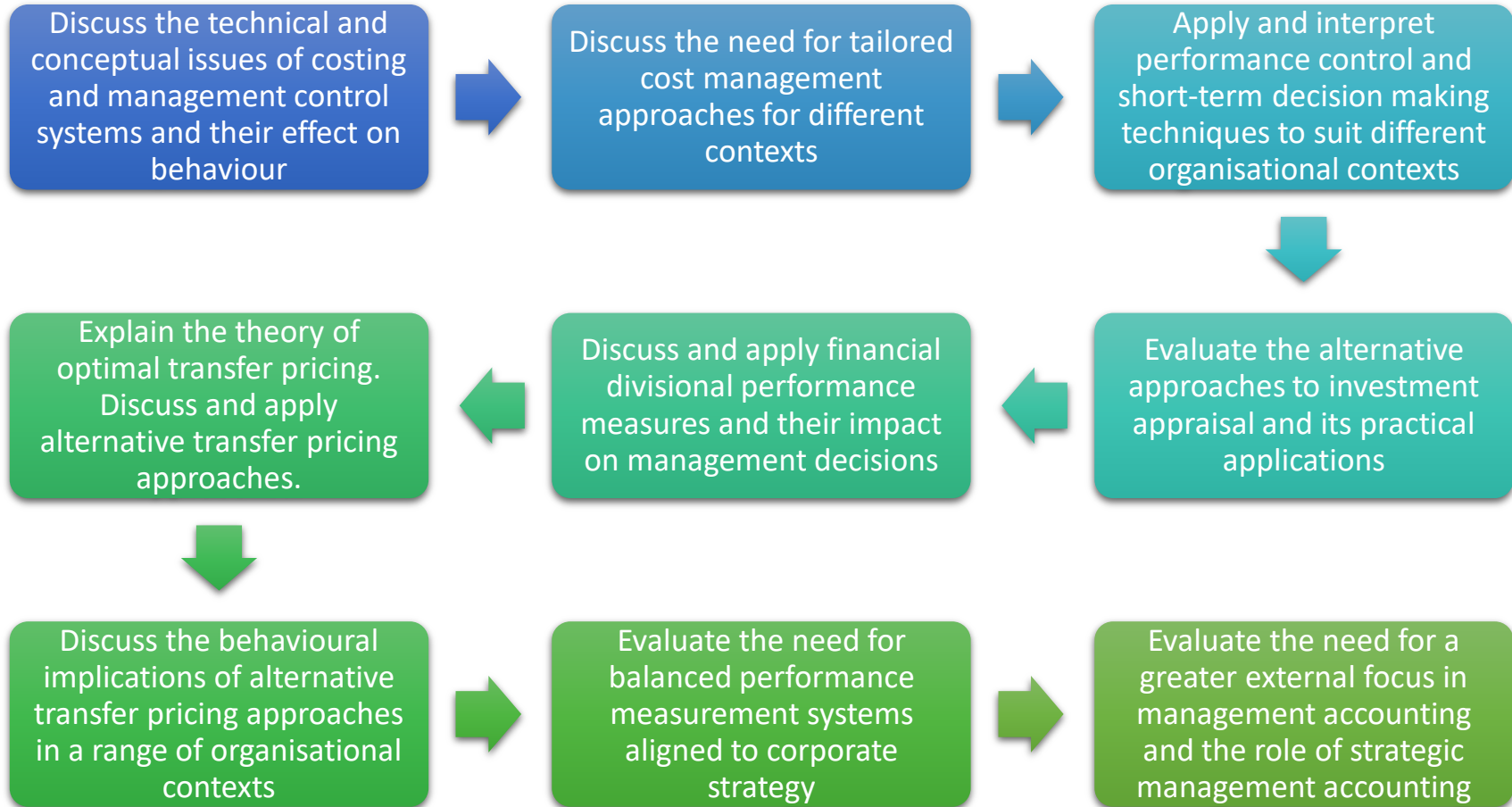
**For the
Constantly
Curious**

Darren Sparkes
Associate Professor

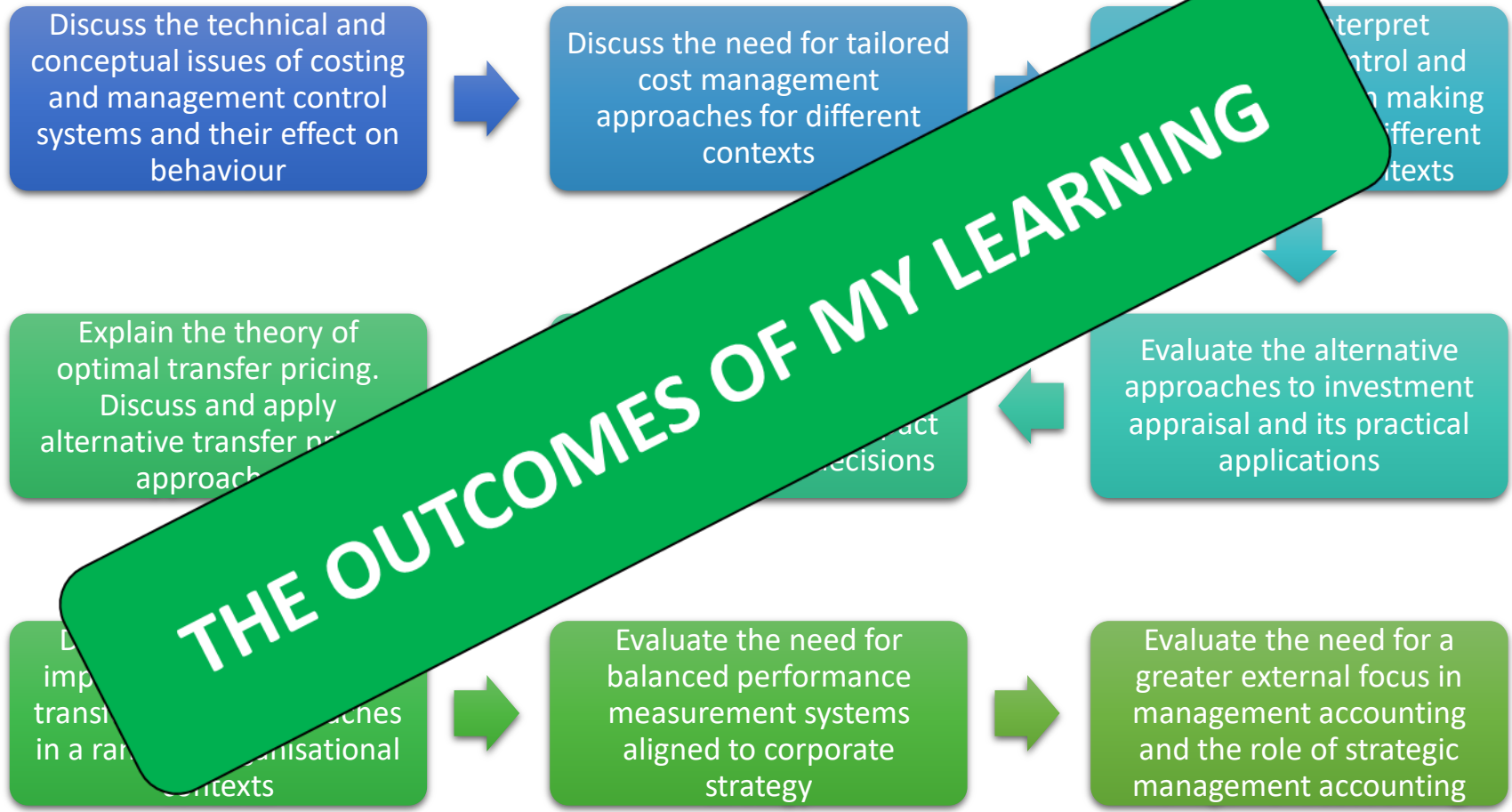
IB2320 Management Accounting for Decision Making and Control (MADMC or MAD MC or just DMC???)

Revision and key terms

Overview of module learning outcomes – by the end of this module you should be able to:



Overview of module learning outcomes – by the end of this module you should be able to:



Revision and Key Terms Learning Outcomes:

1. Discuss what Management Accounting is.
2. Explain, discuss and evaluate key costing systems.
3. Explain key costing terminologies.

To fulfil Module Learning Outcomes:

- Discuss the technical and conceptual issues of costing and management control systems and their effect on behaviour
- Discuss the need for tailored cost management approaches for different contexts

Revision and Key Terms Learning Outcomes:

1. Discuss what Management Accounting is.
2. Explain, discuss and evaluate key costing methods.
3. Explain key costing terminology.

THE OUTCOMES OF MY LEARNING

To fully achieve the Learning Outcomes:

- Discuss the conceptual issues of costing and management accounting and their effect on behaviour
- Discuss the need for tailored cost management approaches for different contexts

Agenda

- **What is Management Accounting?**
- Key costing systems
- Review of basic terms

Management
Accounting



Financial
Accounting

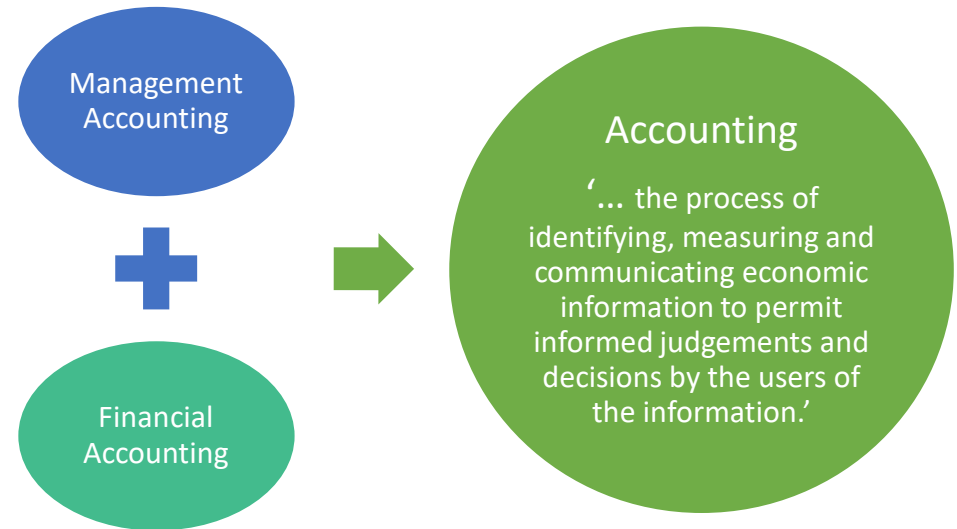


Accounting

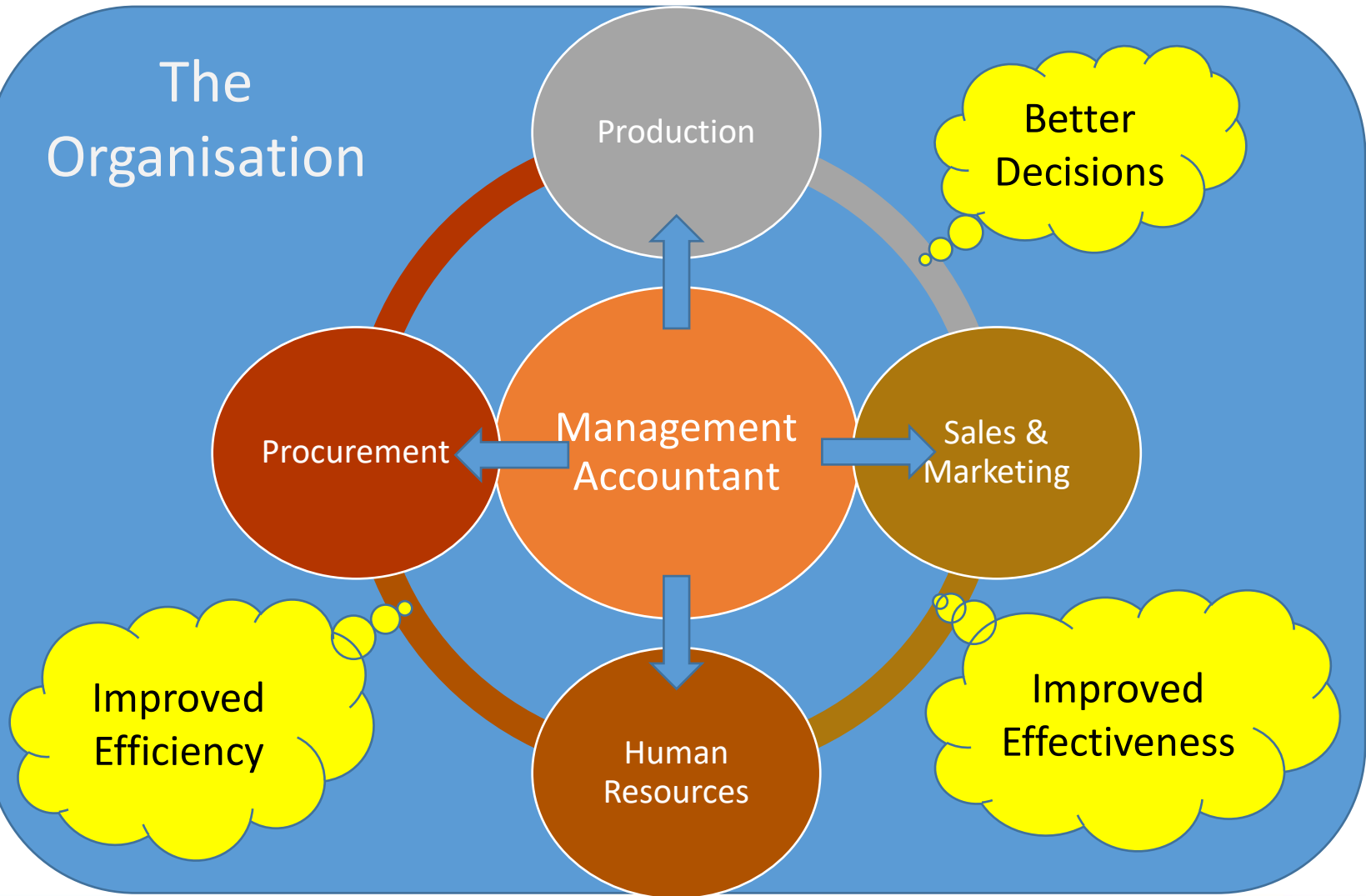
‘... the process of
identifying, measuring
and communicating
economic information to
permit informed
judgements and decisions
by the users of the
information.’

(American Accounting Association)

Exercise: What are the differences between Management Accounting and Financial Accounting?



The Organisation





Better
Decisions

Planning and
Control

Decision Making

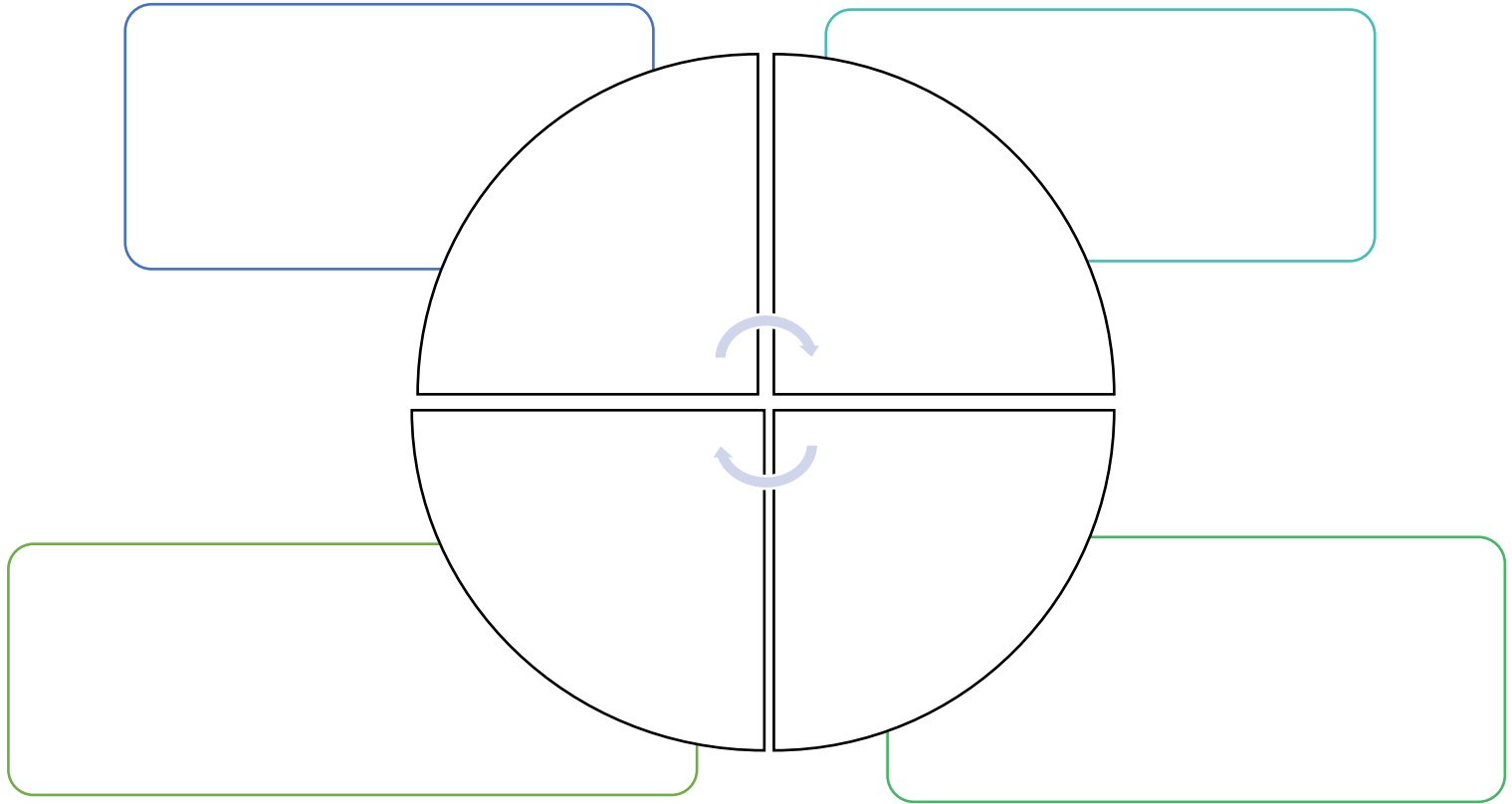
Performance
Measurement
and
Management

Strategic Context

Agenda

- What is Management Accounting?
- **Key costing systems**
- Review of basic terms

Exercise: What are costing systems used for?



Marginal (variable) costing

- To aid with decision making using 'Contribution'.

Full (absorption) costing

- To calculate stock values for Profit analysis. Also used to determine price.

Alternative Costing Systems

Standard Costing

- To calculate costs in advance of production. Allows comparison of standard versus actual cost.

Activity-based costing (ABC)

- To identify reasons why overheads are incurred for a certain activity... to aid decision making

Marginal (variable) costing

- Variable costs are charged to products or services and fixed costs are considered period costs and treated as expenses in the period in which they are incurred.

Full (absorption) costing

- All (fixed and variable/ direct and indirect) costs of production are charged to cost centres and then to products or services.

Alternative Costing Systems (more info)

Standard Costing

- Estimate of expected cost per unit of product or service. Standards used to plan and measure variances to actual cost for performance evaluation.

Activity-based costing (ABC)

- Cost pools used to accumulate the costs of activities. Costs assigned to products or services using cost drivers that measure demand for activities.

Agenda

- What is Management Accounting?
- Key costing systems
- **Review of basic terms**

‘A knowledge of cost and management accounting depends on a clear understanding of the terminology it uses’

(Drury, 2018)

Cost Object (Unit)

- A quantitative unit of product or service in relation to which costs are associated.

Cost Centre

- A production or service location, function or item of equipment whose costs may be attributed to unit costs.

Classifying by Type

Exercise: Consider a simple business making and selling pizza. Identify the cost object and the cost types involved.

Classification By Type

Using the Pizza example we have classified costs by type. We often need to be more specific so we may further subdivide costs:

Direct Costs

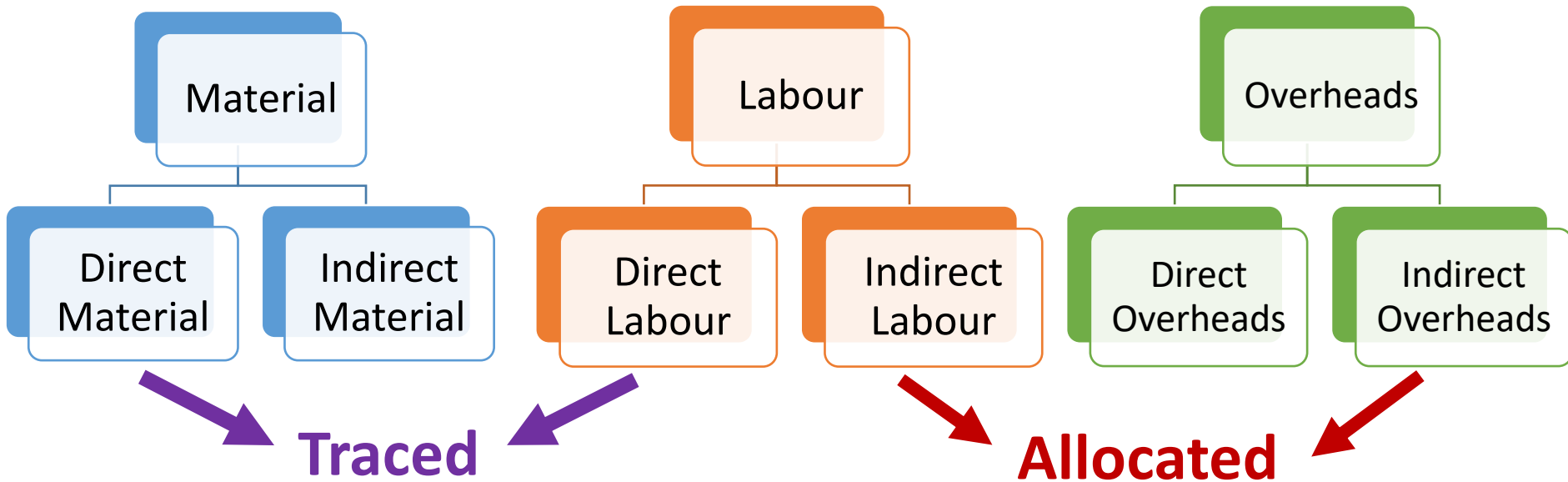
- can be specifically and exclusively identified with a given cost object.

Indirect Costs

- cannot be specifically and exclusively identified with a given cost object, also known as 'Overheads'. Assigned to cost objects on the basis of cost allocations.

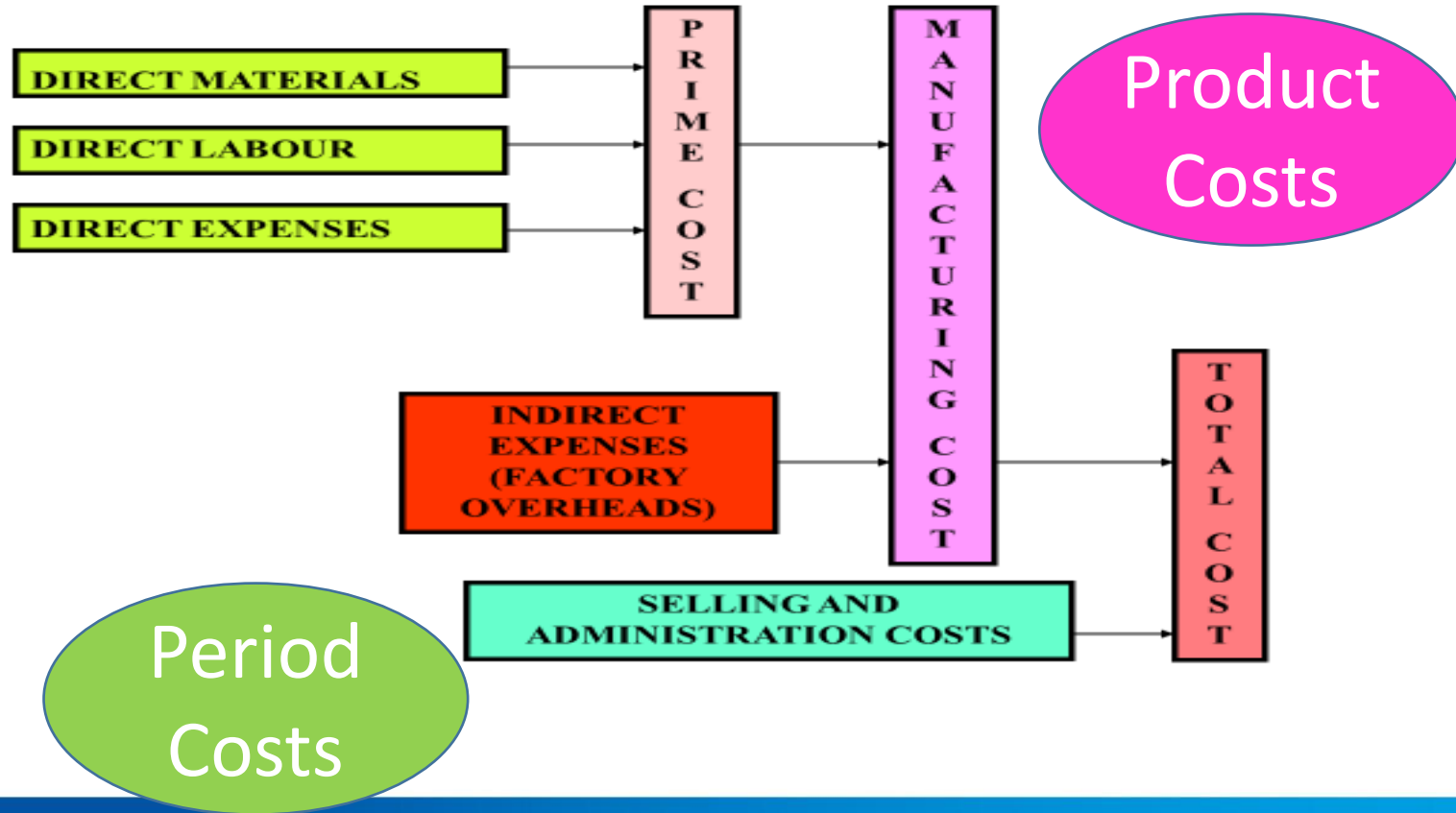
Classification By Type

Using the Pizza example we have classified costs by type. We often need to be more specific so we may further subdivide costs:



Product or Period costs

Determination of unit manufacturing cost



Classifying by behaviour

Consider the pizza business – How should we classify if we want to know what the cost of production will be if we increase output by 10%?



Classifying by behaviour

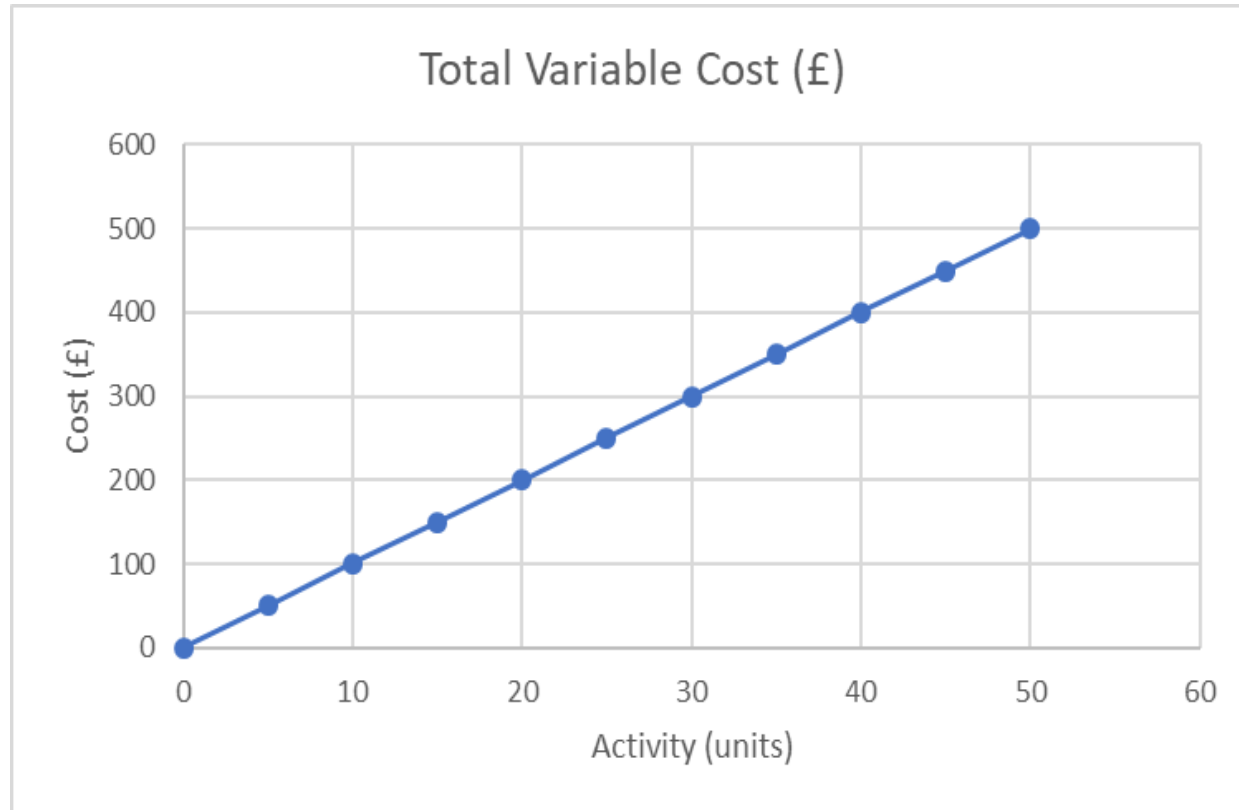
Consider the pizza business – How should we classify if we want to know what the cost of production will be if we increase output by 10%?

Variable
Costs



Vary (usually assumed in direct proportion) with changes of activity in relation to the cost object to which they relate

Total Variable Cost



Classifying by behaviour

Consider the pizza business – How should we classify if we want to know what the cost of production will be if we increase output by 10%?

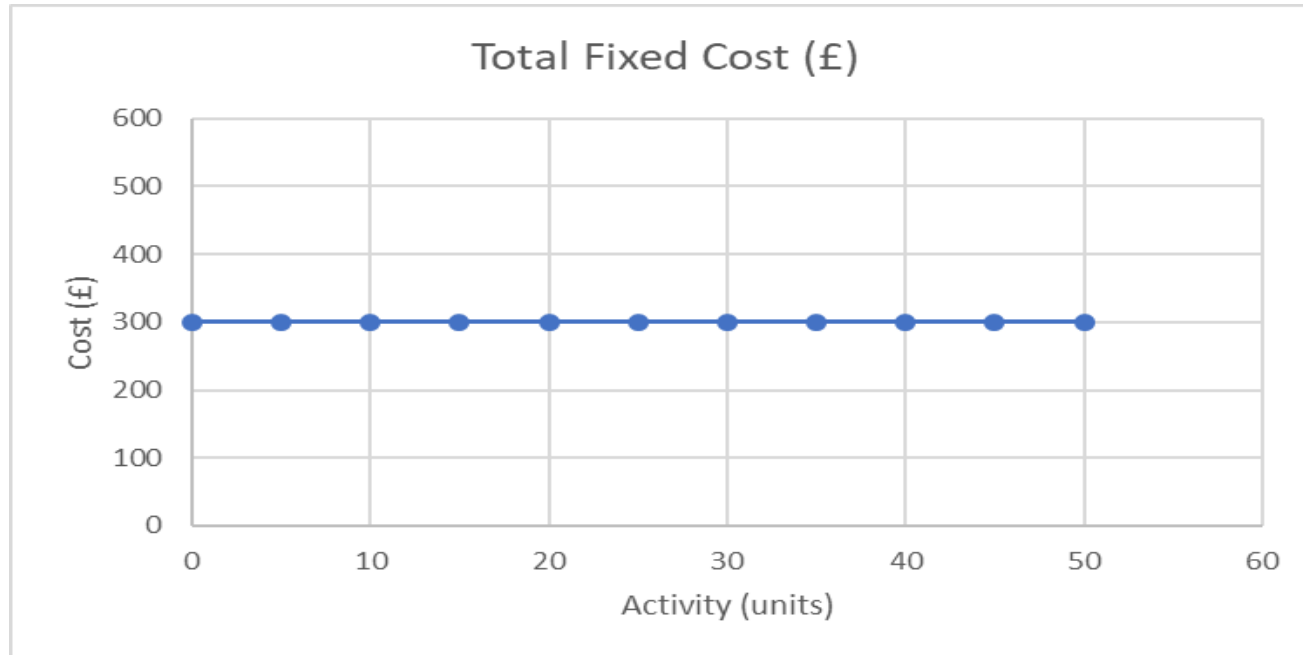
Variable
Costs



Fixed
Costs

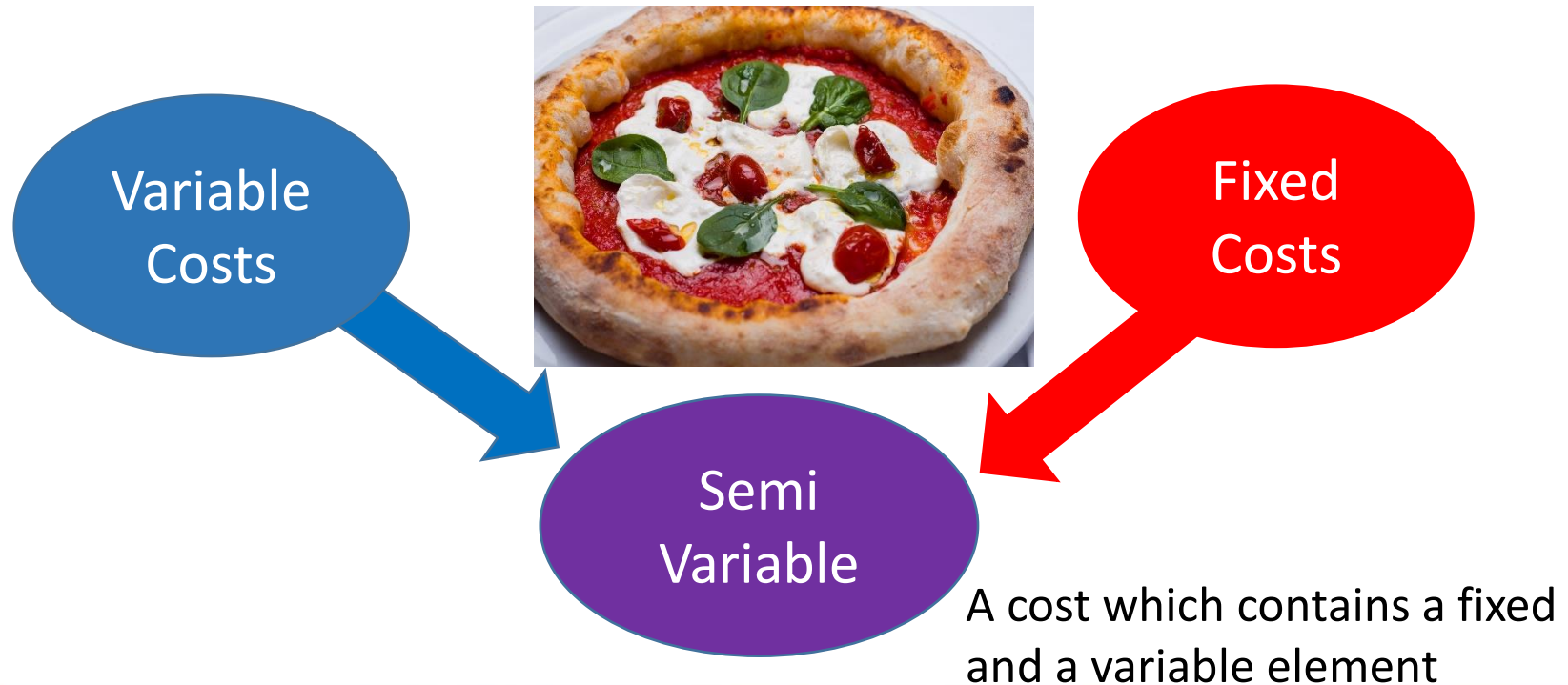
Accrue with the passage of time and are not affected by changes in the activity level, known as period costs

Total Fixed Cost

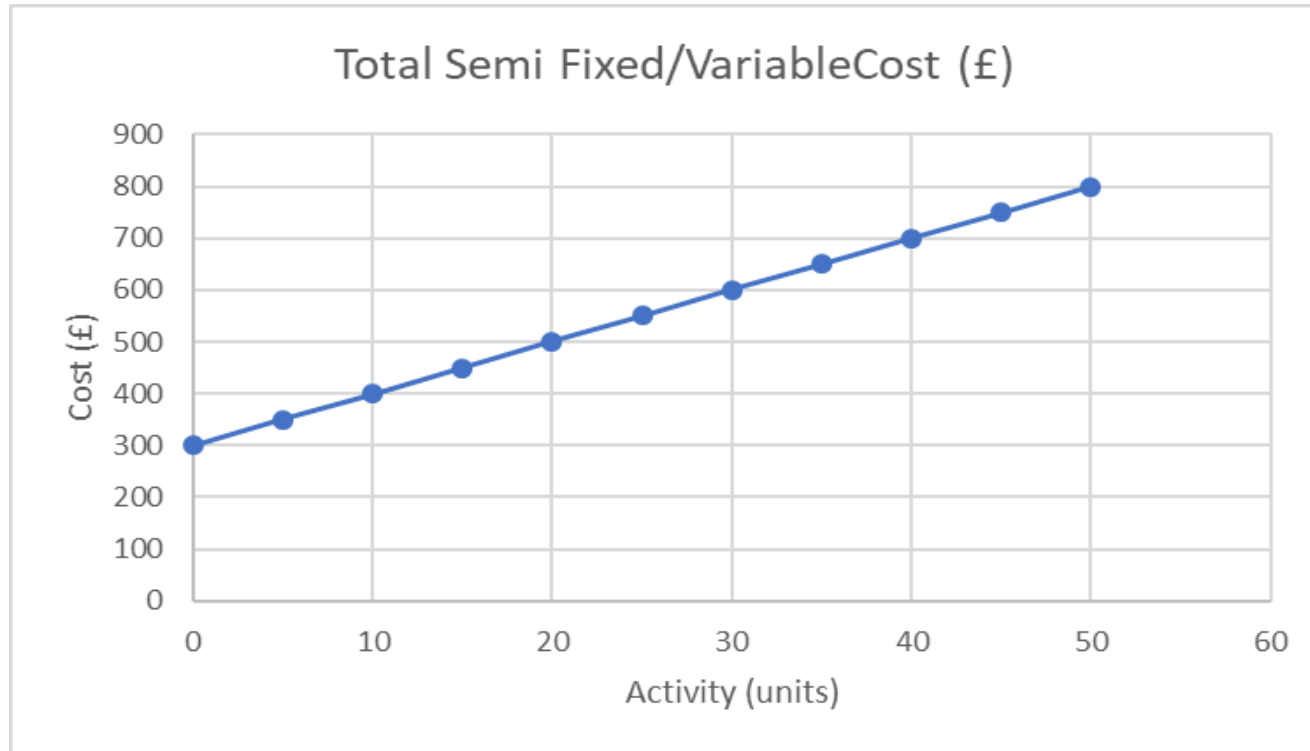


Classifying by behaviour

Consider the pizza business – How should we classify if we want to know what the cost of production will be if we increase output by 10%?

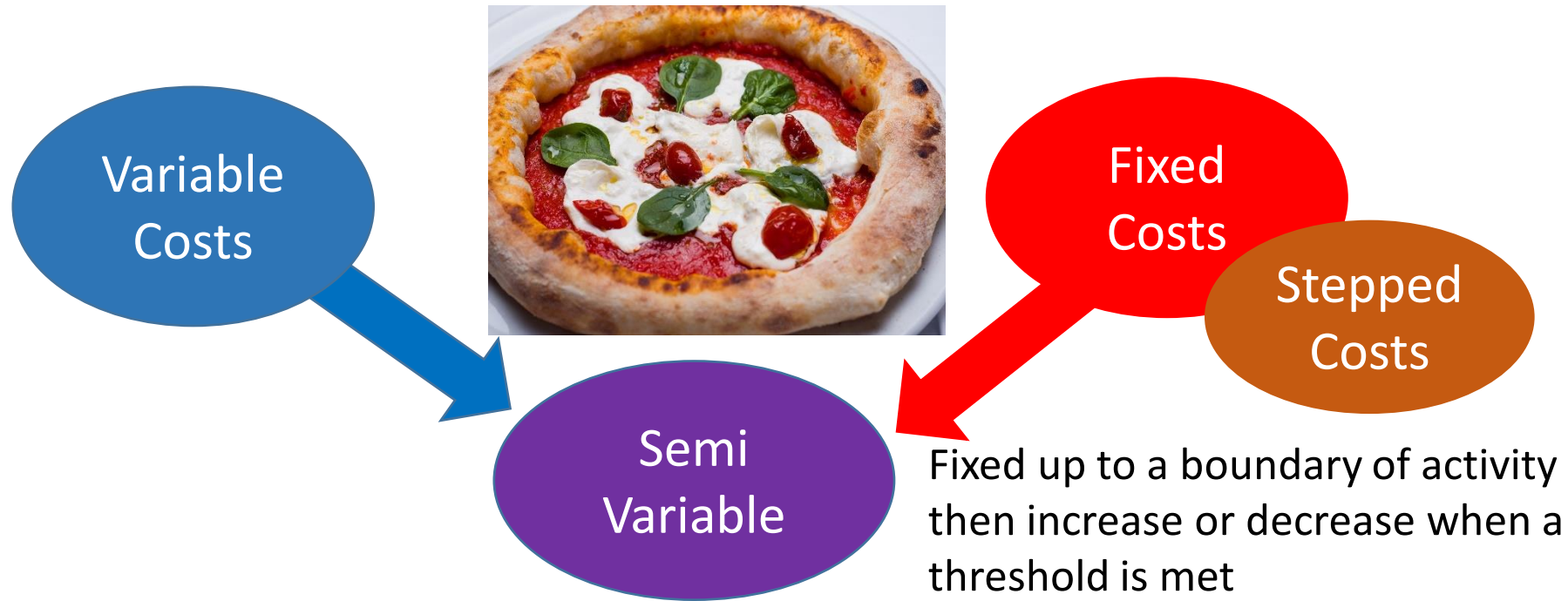


Semi-Variable Costs

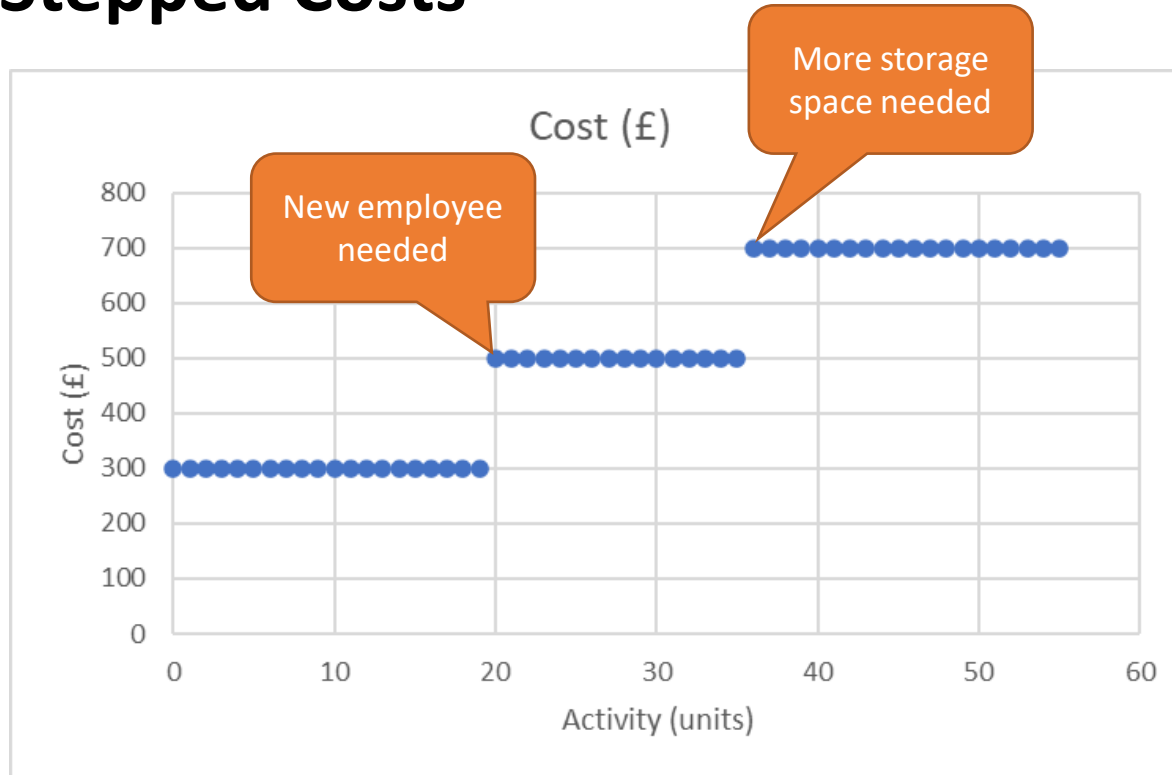


Classifying by behaviour

Consider the pizza business – How should we classify if we want to know what the cost of production will be if we increase output by 10%?



Stepped Costs



Seminar Work and Reading

The first seminars will take place in week 2.

Please complete the pre-seminar exercise. You will be given a fresh exercise to complete when you attend your seminar.

Review the Talis list for the module and skim “Essential Tools for Management Accountants” and consider the tools being used in “Management Accounting tools for today and tomorrow”

Revision and Key Terms Learning Outcomes:

1. Discuss what Management Accounting is.
2. Explain, discuss and evaluate key costing systems.
3. Explain key costing terminologies.

To fulfil Module Learning Outcomes:

- Discuss the technical and conceptual issues of costing and management control systems and their effect on behaviour
- Discuss the need for tailored cost management approaches for different contexts

**For the
Constantly
Curious**

Darren Sparkes
Associate Professor

IB2320 Management Accounting for Decision Making and Control (MADMC or MAD MC or just DMC???)

Revision and key terms