

Management Accounting

Buzz Word Bingo...

- Business Case
- Break-even Analysis
- Contribution Margin
- Transfer Pricing (often has financial accounting implications)
- Buy vs. Lease
- Overhead Allocation
- Profit-Centre
- P&L (profit and loss)

Time for some definitions

Cost

Price

Fixed Cost

Variable Cost

Margin

Markup

Simple Business Case

You are considering the outsourcing of your help desk.

- Your current helpdesk cost you \$10,000/month to run
- The outsourcer charges \$2,000/month plus \$20/call

Should you outsource?

That depends...

How many calls a month do you expect?

Consider the case where...

- a) We have 10 calls a month.
- b) We have 100 calls a month.
- c) We have 1,000 calls a month.

This looks like a job for a spreadsheet.

Our spreadsheet might look like this...

Calls per month	Cost: In house	Cost: outsourced	Savings if outsourced
10	\$10,000	\$2,200	\$7,800
100	\$10,000	\$4,000	\$6,000
1,000	\$10,000	\$22,000	-\$12,000

What columns should be formulas?

Our spreadsheet might look like this...

Calls per month	Cost: In house	Cost: outsourced	Savings if outsourced
10	\$10,000	\$2,200	\$7,800
100	\$10,000	\$4,000	\$6,000
1,000	\$10,000	\$22,000	-\$12,000



$2,000 + 10 * \text{calls_per_month}$



$\text{cost_in_house} - \text{cost_outsourced}$

Breakeven Call Volume

How many calls per month do we need to have for the outsourced deal to save us money?

Algebra:

The correct way, but you have to do some math.

Estimation:

Try a lot of values and see where we go from saving to loosing in the deal.

Practice Exercises:

1. Use algebra to find the answer.
2. Build a spreadsheet to find the answer.
3. Build a spreadsheet that allows you to see how different parameters in the outsourcing contract impact our answer (monthly costs, per call costs)

Note: Solutions posted on eLearn, please try on your own first.

Graded Exercise:

Build a spreadsheet for the Password Reset Application scenario

Use the solutions to the Practice Exercises as a guide.