

STAGE-5

S-502 - MANAGEMENT ACCOUNTING-DECISION MAKING

i. Introduction:

This course is designed to focus on the identification and application of management accounting techniques for decision-making in a specific area.

ii. Objectives:

To provide the students with an in-depth knowledge of management accounting, to enable them to:

- apply management accounting techniques for analysing the information, and presenting it to management for decision-making and control purposes, and
- formulate strategic plans for achieving efficiency and effectiveness in the operation of business.

iii. Outcomes:

On completion of this course, students should be able to:

- develop information for managerial planning and decision-making by using various techniques, such as cost volume-

profit analysis, sales volume analysis, gross profit analysis, marginal costing, sales mix, key limiting factors, make or buy decision, differential cost and comparative cost analysis, opportunity cost and relevant cost, joint cost of product mix,

- undertake sensitivity analysis and evaluate the impact of risk in decision models using strategic management, cost benefits and behavioural consideration, planning and control for product life cycles, probabilities, probabilistic and expected value tables,
- use effectively the linear programming technique for determination of the best use of available resources for profit maximising and revenue maximising,
- develop cost management information to facilitate the principal management function and strategic management,
- generate information on the basis of pricing techniques, and
- compile information by applying the capital budgeting techniques for use of management.

INDICATIVE GRID:

| SYLLABUS CONTENT AREA | WEIGHTAGE |
|---|-------------|
| SECTION - A COST ANALYSIS 1. Cost Behaviour 2. Cost Volume Profit Analysis | 15% |
| SECTION - B SHORT TERM DECISION MAKING 3. Decision Making - Introduction 4. Limiting Factors 5. Pricing Decision 6. Uncertainty and Use of Probabilities | 35% |
| SECTION - C LONG TERM DECISION MAKING 7. Discounted Cash Flow Techniques 8. Capital Investment Decisions 9. Sensitivity Analysis | 35% |
| SECTION - D STRATEGIC ADVANTAGE THROUGH COSTING 10. Cost Reduction Techniques | 15% |
| TOTAL | 100% |

Note: The weightage shown against each section indicates, study time required for the topics in that section. This weightage does not necessarily specify the number of marks to be allocated to that section in the examination.

CONTENTS

SECTION-A

COST ANALYSIS

1. Cost behaviour

Fixed, variable, semi variable and step fixed cost, Linear, curvilinear and step functions, Relevant range, Factors influencing cost behaviour. Methods of segregation of cost into fixed and variable, High low method, scatter graph method, regression analysis and correlation, Learning curve and cost function.

2. Cost Volume Profit Analysis

Break-even analysis, Break-even graph and profit graph, Multi-product CVP analysis, Operational leverage, The economist's and accountant's CVP model, Assumptions of CVP analysis, Effect of changes in cost and revenue.

SECTION - B

SHORT TERM DECISION MAKING

3. Decision Making - Introduction

The decision process, Definition of objectives, Consideration, evaluation and selection of alternatives, Relevant cost and revenue, Differential cost, Opportunity cost, Sunk cost, Make or buy decision or outsourcing, Sale or process further, Replacement of equipment, Adding / deleting a product, Discontinuation of operation.

4. Linear Programming

Decisions with limiting factors, Graphical linear programming, Linear programming for minimising of cost, Linear programming for maximising of contribution margin, Shadow-pricing concept.

5. Pricing Decisions

Economic theory of pricing, Optimal sales price using differential calculus, Difficulties with applying economic theory, Cost based or cost plus pricing, Pricing policies, Pricing for target

rate of return, Pricing strategies for new products: skimming and penetration pricing.

6. Uncertainty and Use of Probabilities

Risk and uncertainty, Use of probabilities and expected values in decision making, Decision tree, The value of perfect information.

SECTION - C

LONG TERM DECISION MAKING

7. Discounted Cash Flow Techniques

Simple and compound interest, Net present value, Internal rate of return, Annuities and perpetuities, Future value.

8. Capital Investment Decisions

Initiation of project, Request for proposals bidding and tender documents, Non-financial consideration (quantitative vs. qualitative) methods, Return on capital employed, Payback period,, Identifying relevant cash flows, Comparison between IRR and NPV, NPV payback period, NPV index, Capital rationing, Effect of tax and inflation on investment decisions, Lease or buy decisions, Projects with unequal lives.

9. Risk and Sensitivity Analysis

Business risk and financial risk, Risk adjusted discount rate, Use of probabilities and expected value in calculating cash flows, Sensitivity analysis in long term decision making and the use, of computer software for 'what if' analysis, Simulation Analysis in project selection

SECTION - D

STRATEGIC ADVANTAGE THROUGH COSTING

10. Cost Reduction Techniques

Value analysis, Total quality management and zero defect programmes, Target costing, Continuous improvement and cost of quality reporting, Learning curve and labour cost reduction over time, Theory of constraints and bottle-neck analysis, Value chain analysis and supply chain management,

Recommended Books

| CORE READINGS | | |
|---------------------------------------|--|--|
| TITLE | AUTHOR | PUBLISHER |
| Managerial Accounting | Ray H. Garrison & Eric W. Noreen | South Western Publishing Co. USA |
| Managerial Accounting | T. Lucy | DP Publications Ltd. Aldine place, 142-144, Uxbridge Road, Shepherds, Bush Green, London W12 8AW. |
| Management Accounting Decision-Making | PBP | Professional Business Publications, Lahore. |
| Introduction to Management Accounting | Charls T. Horngren, Gary L. Sundem & William O. Stratton | Prentice-Hall of India Pvt. Ltd., New Delhi-110001. |
| Handbook of Management Accounting | Roger Cowe | Gower Publishing Co. Ltd., Aldershot, England. |
| ADDITIONAL READINGS | | |
| Managerial Accounting | Lane K. Anderson, Harold M. Sollenberger | South Western Publishing Co. |
| Cost Accounting-A Managerial Emphasis | Charles T. Horngren, George Foster & Srikant M. Datar | Prentice-Hall of India Pvt. Ltd., New Delhi-110001. |
| Managerial Accounting | Ronald W. Hilton | Mc-Graw-Hill Companies Inc. Princeton Road, S-1 Hightslown, NJ08520, New York. |