

## SEMESTER – 6

### STRATEGIC MANAGEMENT ACCOUNTING [BAF-601]

#### INTRODUCTION

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

This course also enables the management accountant to identify the deviation during performance measurement of cost centres, revenue and profit centres for taking remedial action of the management.

#### OBJECTIVE

To provide the students 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.

#### OUTCOMES

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

- use different cost analysis and cost management techniques like Activity Base Costing (ABC), Just-in-time (JIT), Total Quality Management and Supply Chain Management,

- identify and make effective use of relevant cost,
- take short- term decision like acceptance/rejection of contracts, Make or buy decisions and allocation of joint costs,
- understand long term decision making by using DCF techniques.
- get acquainted with risk and uncertainty in decision making, probability analysis and expected values, Decision trees and Sensitivity analysis
- use effectively the linear programming technique for determination of the best use of available resources for profit and revenue maximising,
- understand techniques of marginal cost and full cost analysis.
- develop cost management information to facilitate the principal management function and strategic management,
- generate information on the basis of pricing decision and pricing strategies like demand base pricing, full cost pricing and marginal cost-plus/Mark-up pricing,
- measure the performance in divisionalised businesses.
- Get acquainted with transfer pricing.

#### INDICATIVE GRID

PART	SYLLABUS CONTENT AREA	WEIGHTAGE
A	<b>COST ANALYSIS AND TECHNIQUES</b> 1. Cost Analysis 2. Cost Management Techniques 3. Externally Oriented Cost Management Techniques	10%
B	<b>SHORT TERM AND LONG TERM DECISION MAKING</b> 4. Relevant Costs 5. Short-Term Decisions 6. Risk and Uncertainty 7. Long Term Decision Making by using DCF Techniques	35%
C	<b>PRICING AND PRODUCT DECISIONS</b> 8. Linear Programming: The Graphical Method 9. Linear Programming: The Simplex Method 10. Multi-Product Breakeven Analysis 11. Pricing Decisions and Pricing Strategies	40%
D	<b>PERFORMANCE MANAGEMENT AND RESPONSIBILITY CENTRE</b> 12. Measuring Performance in Divisionalised Businesses 13. Transfer Pricing	15%
<b>TOTAL</b>		<b>100%</b>

**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

##### PART - A

##### COST PLANNING, ANALYSIS AND TECHNIQUES

##### 1. Cost Analysis

- Advantages and disadvantages of Activity Base Costing (ABC)
- Use of Activity Base Management (ABM) in improving activities
- Direct Product Profitability (DPP)
- Customer Profitability Analysis (CPA)
- Distribution Channel Profitability
- Activity-Based Profitability Analysis
- Pareto Analysis
- Variance analysis in an activity based costing system

##### 2. Cost Management Techniques

- Traditional vs Modern Manufacturing Philosophy
- Just-in-time (JIT)

- The theory of constraints (TOC)
- Throughput accounting
- Kaizen Costing
- Total Quality Management
- Business Process Re-engineering

##### 3. Externally Oriented Cost Management Techniques

- The Value Chain
- Supply Chain Management
- Outsourcing
- Partnering, Incentives and Gain-Sharing Arrangements

##### PART - B

##### SHORT TERM AND LONG TERM DECISION MAKING

##### 4. Relevant Costs

- Relevant Costs and Revenues
- Opportunity Cost
- The Relevant Costs of Material
- The Relevant Costs of Labour

- The Relevant Costs of Overheads
- Application of relevant cost to short and long term decision making

#### 5. Short-Term Decisions

- Presentation Guidelines
- Acceptance/Rejection of Contracts
- Extra Shift Decisions and Overtime
- Make or Buy Decisions
- Either/or Problems
- Shutdown Problems/Discontinued Operations
- Choosing between Options
- Allocation of Joint Costs
- Further processing decisions
- Utilization of Spare capacity

#### 6. Risk and uncertainty

- Risk and uncertainty in decision making
- Probability analysis and expected values
- Data tables
- The maximin, maximax and minimax regret bases for decision making
- Using the standard deviation to measure risk
- Decision trees
- The value of information
- Sensitivity analysis
- Simulation models
- 'What if' analysis based on different levels of price, volume and cost

#### 7. Long Term Decision Making by using DCF Techniques

- Decision to launch new product
- Capacity Requirements Planning
- Decision to establish new production facility
- Decision to invest in new fixed assets to improve or enhance production
- Decision for replacement of fixed assets
- Capital rationing decision
- Mutually exclusive projects with unequal lives
- Project abandonment

### PART - C

#### PRICING AND PRODUCT DECISIONS

##### 8. Linear Programming: The Graphical Method

- Need and purpose of linear programming
- Principles of Graphical method
- Graphical method of using simultaneous equations
- Sensitivity analysis

##### 9. Linear programming: the Simplex method

- Principles of the simplex method
- Sensitivity analysis
- Using linear programming

##### 10. Multi-Product Breakeven Analysis

- Drawing a basic breakeven chart
- Breakeven point for multiple products
- Breakeven analysis in a multi-product environment
- Contribution to sales (C/S) ratio for multiple products
- underlying assumptions, limitations and information requirements for CVP analysis
- Multi Product CVP analysis
- Sales/Product Mix Decisions
- Target Profits for Multiple Products
- Margin of safety for multiple products
- Multi-product breakeven charts
- Further aspects of breakeven analysis
- Sensitivity analysis

#### 11. Pricing Decisions and Pricing Strategies

- Basis of Pricing Decision
- Demand base pricing
- Other issues that influence pricing decisions
- Deriving the demand curve
- Profit maximizing price
- Short Term Pricing Decisions
- Long Term Pricing Decisions
- Full cost pricing
- Marginal cost-plus/Mark-up pricing
- Pricing based on mark-up per unit of limiting factor
- Pricing strategies for new products
- Other pricing strategies

### PART - D

#### PERFORMANCE MANAGEMENT AND RESPONSIBILITY CENTRE

##### 12. Measuring Performance in Divisionalised Businesses

- Types of Responsibility Centres
- evaluate performance of responsibility centres
- Return on Investment (ROI)
- ROI and Decision Making
- Residual Income (RI)
- Economic Value Added (EVA)
- advantages and disadvantages of performance measurement systems

##### 13. Transfer pricing

- Basic principles of transfer pricing
- General rules
- Use of market price as a basis for transfer prices
- Transfer pricing with an imperfect external market
- Transfer pricing when there is no external market for the transferred item
- Transfer pricing and changing costs/prices
- Identifying the optimal transfer price
- Negotiated transfer prices
- International transfer pricing

**TEACHING METHODOLOGY:** The faculty is advised to teach the topics in the mode of case studies based on problem solving and decision-making with practical approach.

#### RECOMMENDED BOOKS

CORE READINGS		
TITLE	AUTHOR	PUBLISHER
CIMA, UK Study Text	---	BPP
Relevant Study Text	---	Kaplan Publishing
Managerial Accounting	Ray H. Garrison & Eric W. Noreen	South Western
Management Accounting Decision-Making	PBP	Professional Business Publications
Introduction to Management Accounting	Charls T. Horngren / Gary L. Sundem / William O. Stratton	Prentice Hall /Pearson / Financial Times
Cost Accounting-A Managerial Emphasis	Charles T. Horngren / George Foster / Srikant M. Datar	Prentice Hall /Pearson / Financial Times
Managerial Accounting	Ronald W. Hilton	McGraw – Hill
Hand outs on Cost Accounting Records	--	--