This first course on cost management begins with explaining how data is structured for use by decision-makers inside a firm. The data should enable the management to determine product costs accurately so that it can be used effectively for strategic managerial decisions. Towards this end, we discuss the current practice and discuss how the system can and should be improved. Beyond the traditional approaches to product costing in a manufacturing setting, we consider the activity-based analysis as a methodology to improving the accuracy and making the data useful for financial and other service industries. Discussion on budgeting is introduced as a control device.

A cost management system should also provide information that is useful for decision making such as pricing of individual products, make or buy decisions for components of products, continue or discontinue further processing and special order decisions. Approaches to determine relevance of data for specific decision making situations will be considered. The relationships among cost, production volume and profit will be developed and analyzed.

Cost management is a dynamically evolving field and the course will bring in the changes that have taken place to accommodate the changing business environment due to globalization of competition in pricing and quality of products.

Course material:

Hansen and Mowen, Management Accounting, Thompson Learning, Custom Publishing.

Evaluation:

There will be two tests worth 40 points each. You will be allowed to bring 5 pages of handwritten notes to the test. This should not consist of class notes or Xerox copies of book or any printed material. Homework assignments will be worth 20 points. Homework is due on the date specified in the schedule unless specifically changed by me and announced in class. I plan to discuss the homework problems a class after the due date. A point of zero will be assigned to any test, quiz or homework missed. You are encouraged to participate on the blackboard by writing class summaries after my class lectures. You can also use this media to raise questions about points that were not clear.
in the lecture and/or the homework problems and answering other students’ questions. Participation on the blackboard can help increase your final grade if you happen to fall on the border between two grades.

### Course Schedule

#### Session 1:
September 6
- Product definition for manufacturing, service and retail industries
- Need for accurate determination of product costs
- Tracing costs to activities – direct traceability and indirect traceability
- Cost concepts: directly traceable, indirectly traceable with reference to cost objects
- Cost drivers for activities

Assignment: HM – chapter 2: Problems: 2-2, 3

#### Session 2:
September 8
- Definitions of product costs – inventoriable product costs, whole product (or value chain) cost, lifetime product cost, customer’s view of product cost
- Cost of goods manufactured and income statement formats

Assignment: HM – chapters 2: Problems: 2-6, 10, 11
HW: 2-1

#### Session 3:
September 13
- Continuation of inventoriable product costs
- Direct and indirect costs; inventoriable product and period costs
- Variable and fixed costs – with respect to relevant ranges
- Unused capacities management

Assignment: HM- chapter 2, 3 (up to page 79) Problems: 2-13, 17, 18, 19; 3-2, 3, 7.
HW: 2-7

#### Session 4:
September 15
- Factory product costs and period costs
- Overhead application
• Unit product costs

Assignment: HM-Chapter 4: pages 112-117. Problems: 4-2, 3, 4, 5, 6
Chapter 5; Problems: 5-3, 11, 18
HW: 2-9

Session 5:
September 20

• Activity based costing systems
• Accumulating activity costs
• Determining cost driver rates
• Simplifying using cost pools
• Determining product costs

Assignment: HM chapter 4: Problems: 4-7, 9, 11, 14, 18
HW: 5-4

Session 6:
September 22

• Approximations to ABC systems – combining batch level, product sustaining level and facilities level into one overhead pool

HW: 4-12

Session 7:
September 27

TEST 1

Session 8:
September 29

• Absorption format income statement for financial reporting
• Variable (Direct) costing format income statement for decision making

Assignment HM-chapter 15: Problems: 15-2, 3, 8, 12, 15

Session 9:
October 4

• Segmented income statements

HW: 15-10

Session 10:
October 6

• Analyzing survivability and profit maximization
• Assumptions behind elementary breakeven analysis
• Breakeven formula derivation and significance
Assignment: HM-chapter 16: Problems: 16-3, 4, 5, 6, 10.
HW: 15-11

**Session 11:**
October 11
- Profit-volume graphs and its usefulness
- Contribution margin and contribution margin ratio- interpretations
- Multiple products
HW: 16-9.

**Session 12:**
October 13
- Relevance of past costs, present costs and future costs for decision making
- Effects of taxation, time value of money and opportunity costs on the concept of relevance
- How to choose alternatives and decide on the minimal information needed for decision making
Assignment: HM-chapter 17; Problems: 17-3, 4, 5
HW: 16-31

**Session 13:**
October 18
- Typical keep or sell and make or buy decisions- information needs
- Role of cost allocation in product costing and the need for better decision making
- Decisions using incremental analysis, contribution margin per unit and contribution margin per unit resource consumed
- Historical costs, sunk costs, opportunity costs
Assignment: Problems: 17-10, 11, 13
HW: 17-17

**Session 14**
October 20
**FINAL EXAM**