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 traditional and 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.

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. Homework assignments will be worth 20 points. Homework is due on the date specified in the schedule unless specifically changed by my and announced in class. A point of zero will be assigned to any test or homework missed.
Blackboard Participation

Solutions to selected problems from the text (not necessarily those listed on the schedule) are placed on the blackboard. In addition to using the solutions provided, 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

- Moving from Financial to Managerial accounting focus
- 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 1
chapter 2: Problems: 2-1, 2.

Session 2:
September 11

- Definitions of product costs – inventoriable product costs, whole product (or value chain) cost, lifetime product cost, customer’s view of product cost
- Product cost and period costs for external reporting
- Manufacturing cost concepts
- Cost of goods manufactured, cost of goods sold and inventory balances

Assignment: HM – chapters 2: Problems: 2-6, 7, 10, 11

Session 3:
September 13

- Manufacturing product cost calculations
- Direct and indirect costs; inventoriable product and period costs
- Simple income statements

Assignment: HM – chapters 2: Problems: P2- 9, 13, 17, 18, 19

**Session 4:**
September 18

- Cost behavior- fixed, variable and mixed
- Flexible and committed resources
- Concept of unused capacities and their importance in applying fixed costs to products.
- Separating fixed and variable components – the High-Low method

Assignment: HM- chapter 3 (up to page 79) Problems: 3-2, 3, 4, 6, 7, 8, 9, 12, 18

**Homework 1 is due**

**Session 5:**
September 20

- Overhead cost application
- Over and under applied overhead costs and their accounting
- Activity based costing systems
- Accumulating activity costs
- Determining cost driver rates
- Simplifying using cost pools
- Determining product costs
Assignment: HM-Chapter 4: pages 112-117. Problems: 4–2, 3, 4, 5, 6, 11

**Session 6:**
September 25

- Approximations to ABC systems – combining batch level, product sustaining level and facilities level into one overhead pool
- Plant wide and departmental wide rates for cost application

**Session 7:**
September 27

- Unit product costs
- Review
Assignment: HM-Chapter 5; Problems: 5–3, 4, 8, 9, 11.

**Homework 2 is due**
Session 8:
October 2

TEST 1

Session 9:
October 4

- Absorption format income statement for financial reporting
- Variable (Direct) costing format income statement for decision making
Assignment HM-chapter 15: Problems: 15-1, 2, 3, 4, 6, 7, 13, 15

Session 10:
October 11

- Analyzing survivability and profit maximization
- Assumptions behind elementary breakeven analysis
- Breakeven formula derivation and significance
Assignment: HM- chapter 16: Problems: 16-2, 3, 4, 5, 6, 7, 8, 9, 10, 13.

Session 11:
October 16

- Profit- volume graphs and its usefulness
- Contribution margin and contribution margin ratio- interpretations
- Multiple products
Assignment: HM-chapter 16: Problems: 16- 14, 16, 20, 22.

Homework 3 is due

Session 12:
October 18

- 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: 17-2, 3, 4, 5
Session 13:
October 23

- 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: 17-6, 9, 10, 11, 13

Session 14
October 25

TEST 2
Homework 4 is due