Managerial Accounting

Anccounting for Decision Makers

Kneiser University

Dr

May 31, 2000

**MEMORANDUM**

To: Co-worker

From:

Date: May 31, 2000.

Subject: Managerial Accounting Tools

This documentation is to elaborate on managerial accounting tools that we utilize within our organization. The comprehensiveness of our organizational activity should be considered by performing productivity evaluations and tracking workflow profitability. These activity features are to assign costs to our products and services to help us fulfill planning, controlling, and decision-making responsibilities. The activities are managed by using various tools drawn from our accounting data. Some of these various tools are explained below:

**Job-Order Costing**

In general, job order costing is the allocation of all time, material, and expenses for an individual project or job. Usually, job order costing is software-based, and its information is for budgeting, forecasting, collecting, and reporting on the expenditure and revenue associated with a specific job, project, or service (Ahmed, 2010).

The job order costing system is used for job situations where many various products are produced each period (Ahmed, 2010). Job order costing is extensively used in service industries and custom manufacturers such as printing, aircraft, construction, auto repair, professional services, hospitals, law firms, accounting firms, movie studios, and advertising agencies. These industries use a variety of job order costing to accumulate the cost for accounting and billing purposes (Anta & Iacob, 2020).

**Product Costing**

The process costing method cost system accumulates the manufacturing costs for similar products (Anta & Iacob, 2020). Process costs are collected for each process or department, and the average cost is the unit cost. The products are not individualized because of the continuous flow. The unit cost process calculation is by dividing the total cost from the period into the output of the process during that period (Argade, 2020). Therefore, the cost is totaled at the end of the cost period then transferred to the next process. The work in progress is a regular feature because of continuous production. The standardized production makes it easier to control costs, which requires less paperwork (Argade, 2020). Process costing is generally used in industries such as petroleum, coals, mining, chemicals, textiles, paper, plastics, glass, and food processing (Anta & Iacob, 2020). Such industries are characterized as substantially homogeneous products, where the production process flows continuously (Ahmed, 2010).

**Activity-Based Costing (ABC)**

Activity-Based Costing is a well-known costing/accounting system where business overheads are allocated in proportion to the activity’s direct cost (Mortaji, Bagherpour & Mazdeh, 2013). ABC provides useful product cost information for decision-making purposes. ABC was initiated and made accessible by Robin Cooper and Robert S. Kaplan, which is defined as collecting and tracing the significant activities for the firm's financial and operational performance to product cost (Jong No & Kleiner, 1997). There are five ABC design steps which are:

 • Aggregate actions into activities

 • Report the cos of activities

 • Identify activity centers

 • Select first-stage costs drivers

 • Select second stage cost drivers (Jong No & Kleiner, 1997)

The ABC implementation plan has seven phases which are:

 • An ABC seminar

 • A design seminar

 • Design and data gathering

 • Progress meeting

 • Executive seminar

 • Result meetings

 • Interpretation meetings (Jong No & Kleiner, 1997)

**Variable Costing**

Variable costs generally include material costs and certain labor costs within the product costs. Variable costs are often downgraded as a cost method that focuses on short-term decisions. However, variable cost is supported when the overhead does not vary with units, batches, products, or customers (Hughes & Paulson Gjerde, 2003). This sometimes occurs in a capital-intensive environment where the substantial portion of the overhead structure is machine depreciation and not labor-related overhead. This is mainly seen in paper companies where direct labor is treated as fixed due to workers remaining on-site during the downtime slack periods of the production (Hughes & Paulson Gjerde, 2003). Variable costing is sometimes also known as direct costing or marginal Costing (Ahmed, 2010).

**Absorption Costing**

Absorption costing takes its name from how inventory is valued for balance sheet reporting, and the valued cost of the goods sold is reported in the income statement. In other words, how the products "absorb" cost as they are manufactured (2015). When using the absorption cost, the product costs only include the manufactured cost and not the marketing or distribution costs that were expensed during the incurred accounting period but, they will be included in the item costs at the end inventory (2015).

The assumption is based on the manufactured product, it absorbs the direct material costs that become part of the product, the labor making the product, and the production overhead cost related to its production, this includes the depreciation on the machinery and facilities, supervisory costs, heat and electricity, and other operating costs related to the firm (2015). The expense assumption of absorption costing is necessary for the product that is being manufactured, so each should attach itself to, or be absorbed by the manufactured product (2015).

**Cost-Volume-Profit (CVP)**

 Cost-Volume-Profit analysis's performance is to access the financial implications of product mix, pricing, and production process improvement decisions. The CVP model may be used to evaluate the financial implications of strategic or operational decisions. Most importantly, CVP analysis measures simplify the sensitivity of a product's profitability. Also, CVP may be used to determine profitability trade-offs and risks from alternative product design and production possibilities (Kee, 2007). Lastly, CVP is a powerful tool that helps managers understand the relationships among cost, volume, and profit. CVP focuses on profits that are affected by five factors: selling price, sales volume, unit variable, costs, total fixed cost, and mix of product sold (Ahmed, 2010).

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