

Criteria that must be met for the information to be relevant	<ol style="list-style-type: none"> <li>1. It must be an expected <b>future revenue or cost</b></li> <li>2. It must be different in some way from the other alternatives</li> </ol>
Difference between accuracy and relevance	<ul style="list-style-type: none"> <li>- Information is very rarely both accurate and relevant</li> <li>- Often, accountants have to trade relevance for accuracy</li> <li>- Qualitative info. Is more likely to be inaccurate than quantitative info.</li> </ul>
Variable costs are always...	Avoidable
Fixed costs are	Sometimes avoidable and sometimes unavoidable
Unavoidable costs are sometimes called	Common costs
What do you do with unavoidable costs in decision-making?	Ignore them
Unavoidable costs are	Irrelevant
Incremental revenue	How much more revenue/ how much the revenue changes
Incremental cost	How much more costs/ how much the cost changes
If incremental revenue is greater than incremental cost,	Do it
If incremental revenue is less than incremental cost,	Don't do it
Sunk cost	Type of unavoidable cost that comes from money already spent
Differential costs	Costs that differ between the alternative courses of action
Opportunity costs	The cost of the next best thing foregone
Identifying special order decisions	We typically make a certain product and someone comes along and wants to buy a large amount of our product for a discount
How do you solve special order decisions	<ol style="list-style-type: none"> <li>1. Create two columns at the bottom of the page labeled <b>Incremental Revenue</b> and <b>Incremental Cost</b></li> <li>2. In these columns, write down the change in revenue and change in costs that would occur as a result of accepting the special order</li> <li>3. The correct answer will always be in terms of the difference</li> </ol>
How to identify Make vs Buy Decisions	WE have to decide whether to make a

	product/input ourselves or just buy it from an outside supplier
How to solve the Make vs Buy Decision	<ol style="list-style-type: none"> <li>1. Create two columns at the bottom of the page labeled <b>Make</b> and <b>Buy</b></li> <li>2. Write down the costs associated with making the product and buying the product</li> <li>3. The column that results in the lower total cost is the one we pick</li> <li>4. The correct answer should be in terms of the difference</li> </ol>
What is always avoidable unless stated otherwise	Direct materials, direct labor, and variable factory overhead
If, by buying the product elsewhere, you can avoid some fixed costs add that as a cost to:	The make column
If, by buying the product elsewhere, you can use the factory for something else, add that as a ___ to the ___	Opportunity costs, make column
How to identify a allocating constrained resources decision	We have to decided between producing two or three different products usually in the presence of constraints (something that limits us)
How to solve allocating constrained resources decision	<ol style="list-style-type: none"> <li>1. We determine which product is 'better' by way of contribution margin</li> <li>2. Once we determine which product is better, we make as many as we can of that product</li> <li>3. If demand or resources are limited for the better product, we make as much of it as we can and then move on to the worse product</li> </ol>
If there are no constraints, the product with the higher total CM is	Better
If there are constraints, the product with the higher CM per constraint is	Better
The most common constraint is	Time
Bottleneck	The constraint that limits the firm the most
How to identify keep or eliminate a segment decision	We have to decide if we should get rid of our department if it is showing a loss
What is the segment margin formula	CM- Direct Avoidable Fixed Costs
If the segment margin is positive,	It is helping so keep it

If the segment margin is negative, How to solve Keep or Eliminate a Segment Decision	It is hurting so ditch it <ol style="list-style-type: none"> <li>1. For the segment we are considering closing, always start off by computing the segment margin</li> <li>2. If we can expand another segment, we have to compute the incremental CM associated with that segment's expansion</li> <li>3. Compare this incremental CM to the segment margin to see if it's worthwhile to eliminate the segment</li> <li>4. Ignore unavoidable costs</li> </ol>
How to identify Sell vs Process Further Decision	We have some products that are made from a common input. We have to decide which to just sell now and which to process further
How to solve Sell vs Process Further Decision	<ol style="list-style-type: none"> <li>1. Create two columns at the bottom of the page labeled <b>Incremental Revenue</b> and <b>Incremental Cost</b></li> <li>2. Write down the change in revenue and change in costs that would occur as a result of processing each item further</li> <li>3. Correct answer will always be in terms of the difference</li> </ol>
What are joint products	Many products produced together (until a split off point)
Are they irrelevant or relevant	Always irrelevant
What are separable costs	Costs associated with processing further
Are they irrelevant or relevant	Always relevant
Strategic planning	Broad planning that helps identify the overall focus of an organization
Tactical planning	Specific planning that develops concrete actions to turn strategic plans into reality
What is a component of tactical planning	Budget
Budget	A plan indicating what expenses/costs will be incurred throughout a period of time
What are the benefits of budgets	<ul style="list-style-type: none"> <li>- Forces managers to think ahead</li> <li>- Serves as a benchmark for performance evaluation</li> <li>- Facilitates communication</li> </ul>