

BUSACC 0040 Managerial Accounting
Final Review
Outline of Terms for Final Exam

Past Exams and Quizzes Material

I. Chapter 1: Introduction

- a. What is the difference between financial and managerial accounting

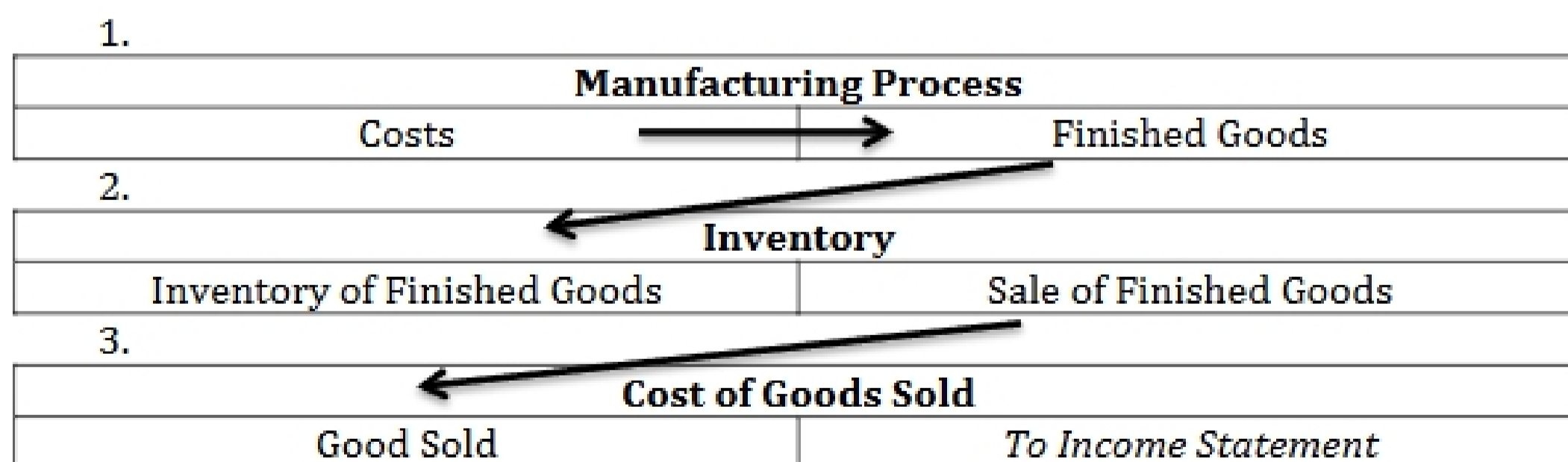
Financial Accounting	Managerial Accounting
Reports outside the organization (i.e. owners, creditors, tax authorities, auditors)	Reports inside the organization (i.e. planning, controlling, decision-making)
Focuses on financial consequences of past activities	Focuses on decisions affecting the future
Objectivity and verifiability	Relevance
Precision	Timeliness
Company-wide reports	Segment Reports
Must follow GAAP	Need not follow GAAP
Mandatory	Not mandatory

- b. Planning: Establishing goals and specifying how to achieve them
- i. Budget: Detailed plan for the future that is usually expressed in formal quantitative terms
- c. Controlling: Gathering feedback to ensure that the plan is being properly executed or modified as circumstances change
- i. Performance Report: Compares budgeted data to actual data in an effort to identify and learn from excellent performance and to identify and eliminate sources of unsatisfactory performance
- d. Decision-making: Selecting a course or action from competing alternatives
- e. Strategy: 'Game plan' that enables a company to attract customers by distinguishing itself from competitors
- f. Enterprise Risk Management: Process used by a company to identify risks and develop responses to them that enable it to be reasonable assured on meeting its goals
- g. Business Process: A series of steps that are followed in order to carry out some task in business
- i. To serve customers
- h. Value Chain: Consists of the major business functions that add value to a company's products and services
- i. Research and development
 - ii. Product design
 - iii. Manufacturing
 - iv. Marketing
 - v. Distribution
 - vi. Customer service

- i. Lean Production: Management approach that organizes resources such as people and machines around the flow of business processes and that only produces units in response to customer orders (Just-in-time production)
 - i. Linked to pull inventory
- j. Constraints: Anything that prevents you from getting more of what you want
 - i. Bottleneck
- k. Theory of Constraints: Effectively managing the constraints is the key to success; Focusing on strengthening the weakest link
- l. Corporate Social Responsibility (CSR): Concept whereby the organization considers the needs of all stakeholders when making decisions
- m. Push v. Pull Inventory Systems
 - i. A push inventory system involves forecasting inventory needs to meet customer demand
 - ii. A pull inventory system involves only making enough product to fulfill customer orders

II. Chapter 2: Cost Terms

- a. Cost=Resources Used
- b. Direct vs. Indirect Cost
 - i. Direct costs can be traced directly to a produce or service
 - ii. Indirect costs can not be traced or are too insignificant to trace
- c. Variable vs. Fixed Cost
 - i. Variable Cost is a cost that varies in total, in direct proportion to changes in the level of activity
 - ii. Fixed cost is a cost that remains constant, in total, regardless of changes in the level of activity
- d. Cost Object: Anything for which costs need to be collected
- e. General Cost Classifications:
 - i. Manufacturing (Product) Cost: Only includes costs associated with operating the facility
 - 1. People: Direct Labor and Indirect Labor
 - 2. Materials: Direct Materials and Indirect Materials
 - 3. Manufacturing Overhead: Collection of all indirect costs



- ii. Nonmanufacturing (Period) Costs
 1. Selling Cost: All costs incurred to secure customers orders and get the finished product to the customer
 2. Administrative Costs: All costs associated with the general management of an organization
- f. Other Classifications of Manufacturing Costs
 - i. Prime Cost: The basic cost of operations (Direct Labor + Direct Materials)
 - ii. Conversion Cost: The costs to convert the direct materials to a finished product (Direct Labor + Manufacturing Overhead)
 - iii. Cost Structure: Relative proportion of each type of cost in an organization
- g. Treatment of Labor Related Costs
 - i. Overtime
 - ii. Fringe Benefits
- h. Cost Behavior Patterns: Refers to how costs react to changes in the level of activity
 - i. Variable/Fixed Costs
 1. In Total: Variable costs increase as output increases; Fixed costs remain the same as output increases
 2. Per Unit/Average: Variable cost per unit remains the same (unchanged) as output increases; Fixed costs per unit decrease as output increases
- i. Estimation of Costs
 - i. Cost Driver (Activity base)
 - ii. Relevant Range: Linearity Assumption: The relevant range is a range of activity within which the assumption that cost behavior is strictly linear is reasonably valid
- j. Types of Fixed Cost
 - i. Committed Costs: The company is committed to these costs for the long term because they are not easily changed (i.e. machinery, buildings)
 - ii. Discretionary Costs: There is more latitude for reducing these costs or eliminating these costs in the short term (i.e. advertising, annual salaries, research and development)
 - iii. Mixed Costs: Combination of fixed and variable costs
 1. $Y=A+BX$
 2. Three Methods of Estimating Mixed Costs:
 - a. High-Low Method
 - b. Scatter Graph Method
 - c. Least Squares Regression Model
- k. Other Cost Terms
 - i. Differential: Difference between cost when considering various alternatives (Incremental: When adding or dropping a segment, product, etc.)
 - ii. Opportunity: Looking at the difference between two alternatives; What are you giving up for A because you are doing B
 - iii. Sunk: Past costs; Will not be recovered no matter what your decision
- l. Cost of Quality (Goal=Zero Defects)