

Week 2 Notes

Ch 1

Managerial Accounting-

The gathering & preparing of accounting info used WITHIN a company to help efficiently & effectively achieve the organization's goals & objectives.

Users of Accounting Info: Financial vs. Managerial-

Financial- **EXTERNAL** users, complies with GAAP, **HISTORICAL**, reports prepared at end of each period.

Managerial- **INTERNAL** users, Non-GAAP, **FUTURE ORIENTED**, reports prepared as needed.

Use of Managerial Accounting-

Managerial accounting assists these 4 functions of management:

- 1-Planning
- 2-Controlling
- 3-Evaluating
- 4-Decision Making

Competitive Advantage arises from-

- 1-Product Differentiation
- 2-Low-Cost Production

How to Monitor Strategic Performance-

Balanced Scorecard, Supply Chain Management, (JIT) Just-In-Time Inventory, (ERP) Enterprise Resource Planning Systems

Ch 2

Cost Behavior & Cost Estimation

Cost Behavior-

The way a cost “behaves” or reacts to changes in Activity Levels

The activity levels that “drive” or cause costs to change are called **COST DRIVERS**

4 Common Cost Behavior Patterns-

1-Variable Costs

2-Fixed Costs

3-Step Costs

4-Mixed Costs

Variable vs. Fixed Costs-

Variable Cost- as the Cost Driver activity changes, so does variable cost. Variable costs change in direct proportion to changes in Cost Driver activity. Cost remains constant on a per unit basis. (Ex. The cost of ingredients to make a combo at Wendy’s)

Fixed Cost- remains constant as Cost Driver activity changes, stays at the fixed amount regardless of activity level. Per unit cost fluctuates due to activity level. (Ex. The cost of rent each month)

-Remember how a cost behaves in TOTAL is the opposite of how it behaves on a per unit basis-

Discretionary vs. Committed Fixed Costs-

Discretionary Fixed- fixed costs that management has the ability to change in the short run. (Ex. Advertising, machine maintenance)

Committed Fixed- fixed costs that the company cannot change in the short run. (Ex. Rent, utilities)

Step Costs-

Costs that **REMAIN CONSTANT FOR A SMALL RANGE** of activity but then change abruptly once outside of that range of activity. (Ex. Buying a pack of cups, if you want 0-25 cups you buy a 25 pack for \$4.00, but if you want more than 25 you buy the 50 pack for \$6.50)

Mixed Costs-

Costs that have both a Fixed component and a Variable component. (Ex. Phone Bill- you pay \$50 a month PLUS an additional \$0.05 for every minute you use over 500minutes)