



## Course information 2019–20

### AC2097 Management accounting

This course is designed to provide students with knowledge and skills enabling them to design appropriate management accounting reports providing information for operational and strategic decision making, planning, control and performance measurement, largely in a business context.

#### Prerequisite

If taken as part of a BSc degree, the following course must be passed before this course may be attempted:

*AC1025 Principles of accounting*

#### Aims and objectives

This course is designed to equip you with knowledge of the concepts and the ability to apply techniques of management accounting, in order to be able to contribute to the success of an organisation. Modern management accounting is concerned with decision making, planning and control. It supports decision makers in their daily and strategic decisions, contributes to short- and long-term planning and produces information for control, performance measurement and management. This may also include non-financial information in management accounting reports, where it is used in combination with financial information to construct broader pictures of the contribution that different processes, procedures, functions, activities and divisions make to the strategic achievements of a firm.

#### Assessment

This course is assessed by a three-hour fifteen-minute unseen written examination.

#### Learning outcomes

At the end of the course and having completed the essential reading and activities students should be able to:

- ✓ discuss the changing role of management accounting
- ✓ critically evaluate the uses of management accounting information for strategic decision making in various business contexts
- ✓ select, devise and apply different types of cost and revenue analysis and explain their different roles for supporting operational and strategic managerial decisions
- ✓ design and prepare budgets and explain their use in planning and control
- ✓ design and use variances to support feedback, analysis and control
- ✓ identify and discuss different methods of investment appraisal
- ✓ discuss various approaches to performance measurement and control in various types of organisations, and devise and evaluate indicators of performance
- ✓ relate the use of management accounting information to the expanding availability of data and global reach through the use of IT and the internet

#### Essential reading

For full details, please refer to the reading list.

- Bhimani, A. et al. *Management and cost accounting*. (Pearson, 2019) 7th edition [ISBN 9781292232669]

Students should consult the appropriate *EMFSS Programme Regulations*, which are reviewed on an annual basis. The *Regulations* provide information on the availability of a course, where it can be placed on your programme's structure, and details of co-requisites and prerequisites.

## Syllabus

This is a description of the material to be examined. On registration, students will receive a detailed subject guide which provides a framework for covering the topics in the syllabus and directions to the essential reading.

The subject guide builds on the management accounting material covered in **AC1025 Principles of accounting**. It examines theoretical and practical issues relating to management accounting in the modern environment to an advanced level. The topics to be covered in this subject guide are organised into the following chapters:

**Chapter 1: Management accounting and its strategic context** - In this chapter the role of management accounting in supporting management decision making and the impact of the changing business environment are discussed. There is also revision of cost terms and concepts covered in AC1025.

**Chapter 2: Full absorption costing methods** - In this chapter we explore the theory and practice of allocating and absorbing costs to cost objects (products, services and cost centres) and how the costs obtained should be interpreted and used.

**Chapter 3: Inventory and process costing and capacity management** - This chapter covers the purpose of and calculations needed to ascertain the cost per unit of processed products using both FIFO and weighted average methods. It also looks at methods of dealing with losses in process. The chapter finishes by introducing capacity management which is explored in detail in later chapters.

**Chapter 4: Activity-based costing (ABC)** - This chapter discusses the changed business environment which requires more accurate measurement of the costs of inputs and explains the calculation of activity-based costs.

**Chapter 5: Activity-based management (ABM)** - This chapter discusses the extended use of ABC techniques for managerial decision making and activity-based budgeting (ABB).

**Chapter 6: Cost-volume-profit analysis** - This chapter revises break-even analysis as studied in AC1025 and covers break-even analysis where there are several products. It also looks at using contribution analysis for decision making and operating leverage.

**Chapter 7: Application of cost-volume-profit analysis** - This chapter looks at techniques available to determine cost behaviour. It also focuses on the impact of the learning curve on product/service costs.

**Chapter 8: Relevant information in decision making** - This chapter revises the concepts of sunk cost, opportunity cost, already controlled and not yet controlled cost. It illustrates how to identify the appropriate cost for different decisions including outsourcing. It discusses some of the potential longer term impacts of short-term decisions.

**Chapter 9: Decision making with constraints and uncertainty** - This chapter looks at the financially optimal use of constrained factors including the use of linear programming, shadow prices and throughput accounting. It also covers several methods of dealing with uncertainty including probability analysis, decision trees, maximin, maximax and regret criteria.

**Chapter 10: Theory and practice of pricing** - This chapter looks at various aspects of the pricing decision and reviews different ways in which cost supports the pricing decision.

## Syllabus (continued)

This is a description of the material to be examined. On registration, students will receive a detailed subject guide which provides a framework for covering the topics in the syllabus and directions to the essential reading.

**Chapter 11: Target costing, value engineering and customer profitability analysis** - This chapter covers the topics in the chapter heading. It looks at the identification of value added and non-value added costs, benchmarking, business process re-engineering and just-in-time systems. It identifies when these analyses should be used, their calculation and the interpretation of the results of calculations.

**Chapter 12: Long-term decision making, capital budgeting and lifecycle budgeting and costing** - This chapter discusses the management of capacity in the long term. It summarises methods of long term investment appraisal and compares the results with short-term accounting performance measures. It explains the calculation and use of lifecycle budgeting and costing. It also discusses the post-implementation audit of long term decisions.

**Chapter 13: Strategic budgeting and control** - This chapter covers the purposes and preparation of budgets including activity-based budgeting, rolling budgets and zero-based budgeting.

**Chapter 14: Budgeting and control** - In this chapter responsibility accounting and the managerial roles of budgeting are discussed. The calculation of flexed budgets and variance analysis are explained.

**Chapter 15: Variance analysis – further issues** - This chapter covers input mix and yield variances, sales mix variances, planning and operational variances and the investigation of variances.

**Chapter 16: Divisional performance measurement systems** - In this chapter the measurement of divisional performance is discussed, including decisions on how to define income and investment. The measurement methods of return on investment, residual income and economic value added® are explained and their strengths and limitations are discussed.

**Chapter 17: Transfer pricing and its effect on performance management systems** - This chapter focuses on the purposes of using transfer pricing and the different methods used. It also discusses multinational transfer pricing.

**Chapter 18: Strategic performance management – the use of non-financial performance measures** - This chapter defines lead and lag performance measures and looks at the use of the balanced scorecard and Fitzgerald and Moon's results and determinants framework. The use of non-financial performance indicators in the profit and not-for-profit sectors is discussed.

**Chapter 19: Cost management and environmental accounting** - This chapter discusses quality cost management and the measurement and control of environmental costs.

**Chapter 20: Future trends in strategic management accounting** - This chapter looks at several management accounting techniques previously learned and relates them more closely to strategic decision making. It also considers the changing nature of business impacts and competition brought about by much greater access to data through IT and the global reach of the internet.