This course supports the assessments for Concepts in Cost/Managerial Accounting. The course covers 8 competencies and represents 6 competency units.

Introduction

Overview
Many students choose to work for manufacturing companies. The financial accounting learned in previous coursework is a great foundation for this study of internal accounting. Managerial accounting is about providing information to management to manage better by controlling costs. You will also study some techniques used to make other decisions on how best to use the capital resources of the firm. Providing information about how the business is performing is a critical aspect of accounting information. In this case the focus is on the internal operations and how to work in a partnership with the decision makers in the firm.

Watch the following video for an introduction to this course:

Note: To download this video, right-click the following link and choose “Save as...”: download video.

Competencies
This course provides guidance to help you demonstrate the following 8 competencies:

- **Competency 308.1.1: Health Assessment**
  The graduate understands how to use process costing.
- **Competency 308.1.2: Job Order Costing**
  The graduate understands how to use job-order costing.
- **Competency 308.1.3: Variances**
  The graduate understands how to use a standard cost system for computing variances and explaining their significance.
- **Competency 308.1.4: Activity-Based Costing**
  The graduate understands Activity-Based Costing.
- **Competency 308.1.5: Variable and Absorption Costing**
  The graduate understands variable and absorption costing.
- **Competency 308.1.6: Cost/Benefit Analysis**
  The graduate can use cost/benefit analysis in making decisions.
- **Competency 308.1.7: Developing Budgets**
  The graduate can develop various forms of operating budgets, including a flexible budget system.
- **Competency 308.1.10: Management Tools and Data**
  The graduate understands accounting data, reports, and tools used by management.

Course Instructor Assistance
As you prepare to demonstrate competency in this subject, remember that course instructors stand ready to help you reach your educational goals. As subject matter experts, mentors enjoy...
and take pride in helping students become reflective learners, problem solvers, and critical thinkers. Course instructors are excited to hear from you and eager to work with you.

Successful students report that working with a course instructor is the key to their success. Course instructors are able to share tips on approaches, tools, and skills that can help you apply the content you're studying. They also provide guidance in assessment preparation strategies and troubleshoot areas of deficiency. Even if things don't work out on your first try, course instructors act as a support system to guide you through the revision process. You should expect to work with course instructors for the duration of your coursework, so you are welcome to contact them as soon as you begin. Course instructors are fully committed to your success!

Preparing for Success

The information in this section is provided to detail the resources available for you to use as you complete this course.

Learning Resources

The learning resources listed in this section are required to complete the activities in this course. For many resources, WGU has provided automatic access through the course. However, you may need to enroll manually in or independently acquire other resources. Read the full instructions provided to ensure that you have access to all of your resources in a timely manner.

Automatically Enrolled Resources

You can access the learning resources listed in this section by clicking on the links provided throughout the course. You may be prompted to log in to the WGU student portal to access the resources.

McGraw-Hill Connect

You will access all of the activities for this course, including the reading assignments, in McGraw-Hill Connect. Please note that the primary learning resource for CMO1 is the e-text. The e-text chapters will provide you with an overview of the key concepts, as well as examples of how these concepts are utilized in real-world organizations. Once you have moved through the corresponding e-text chapter for each section, there will be resources from the McGraw-Hill Connect site to provide you with additional review of the concepts found in the e-text.

The following textbook is available to you as an e-text within this course:


The three major activities in the program involve:

- LearnSmart modules or narrated presentations;
- interactive exercises and problems;
- and chapter quizzes.
It is recommended that you complete the LearnSmart module or the narrated presentations for each chapter, then complete the questions assignment, and finally take the quiz for the same chapter. You are also encouraged to complete the chapters in order, without skipping any, including the appendices.

**SkillSoft and Books 24x7**

You will access SkillSoft items at the activity level within this course. For more information on accessing SkillSoft items, please see the “[Accessing SkillSoft Learning Resources](#)” page.

**Introduction to Accounting: The Language of Business**

The Introduction to Accounting: The Language of Business courseware contains modules with lessons that are instructor-led, as well as on-screen presentation of material. There are numerous helps built into each lesson. You will be directed to specific links to this resource in the activities that follow.

**Topics and Pacing**

This outline suggests a weekly structure to pace your completion of learning activities. It is provided as a suggestion and does not represent a mandatory schedule. Follow these guidelines carefully to complete the course in the suggested timeframe.

Week 1:

- CVP-Break-Even, Target Profit, and Margin of Safety

Week 2:

- Cost Flow in Job-Order Costing
- Estimating and Correcting Overhead Costs
- Correcting Applied Overhead Cost to Actual Costs

Week 3:

- Process Costing Equivalent Units
- The Production Report

Week 4:

- Net Income Effects and Reporting Choice

Week 5:

- ABC and Allocating Costs

Week 6:

- Flexible Budgeting
Week 7:

- Reporting Variances from Standards

Week 8:

- Differential and Cost/Benefit Analysis

Week 9:

- Quality Reporting

Week 10:

- Cost Centers and Reportable Segments

Week 11:

- Transfer Pricing

Week 12:

- Final Steps

**Cost-Volume-Profit**

Planning is a key management function. What is the break-even point for your products? What is the target profit you hope to achieve? The planning process can be directed to achieve these goals. Then the manager can track progress as the accounting period progresses.

The ability to predict how costs and profit will respond to changes in activity is critical for making decisions, controlling operations, and evaluating performance. Three major classifications of costs are discussed in this section: variable, fixed, and mixed. You will also learn about the contribution margin and its value as a tool for evaluating decision alternatives or possible changes in sales volume and their impact on net operating income. Be sure that you understand break-even analysis, identifying potential target profits and margins of safety, and operating leverage.

**CVP-Break-Even, Target Profit, and Margin of Safety**

Managers use the methods presented in this unit to forecast the operational requirements to achieve successful operation and even a projected profit.

This topic addresses the following competency:

- **Competency 308.1.6: Cost/Benefit Analysis**
  The student can use cost/benefit analysis in making decisions.
After completing this topic's activities, you will be able to complete the following items:

- Explain how changes in activity affect contribution margin and net operating income.
- Prepare and interpret a cost-volume-profit (CVP) graph and a profit graph.
- Use the contribution margin ratio (CM ratio) to compute changes in contribution margin and net operating income resulting from changes in sales volume.
- Show the effects on contribution margin of changes in variable costs, fixed costs, selling price, and volume.
- Determine the level of sales needed to achieve a desired target profit.
- Determine the break-even point.
- Compute the margin of safety and explain its significance.
- Compute the degree of operating leverage at a particular level of sales and explain how it can be used to predict changes in net operating income.
- Compute the break-even point for a multiproduct company and explain the effects of shifts in the sales mix on contribution margin and the break-even point.

**Managerial Accounting Overview**

Read the following chapters in *Managerial Accounting*:

- Chapter 1 ("Managerial Accounting: An Overview")
- Chapter 2 ("Managerial Accounting and Cost Concepts")

There is good background information about managerial accounting in Chapter 1 and some important terminology is covered in Chapter 2. Be sure you understand direct costs, indirect costs, variable costs, fixed costs, opportunity costs, and sunk costs.

You should also view the Chapter 1 and Chapter 2 videos from the video library. Use the textbook companion website's Chapter 2 practice exams to check your understanding. The answers are at the end of the exam so be sure to give your best effort on the questions prior to going to the end of the exam.

**Cost-Volume-Profit**

Read the following in *Managerial Accounting*:

- Chapter 5 ("Cost-Volume-Profit Relationship")

After reading this chapter you should understand variable costs, fixed costs, break-even analyses, and the contribution margin income statement.

**Chapter 5 Website Support**

Use the textbook companion website to complete the following activities for Chapter 5:

- Review the chapter material in the student PowerPoint presentation.
- Click on the video library and watch the video(s) for this chapter.
- Complete the multiple-choice quiz.
- Complete the practice exams for the chapter, then check your answers at the end of the
Introduction to Accounting Lessons 12 and 16

Complete the following lessons in *Introduction to Accounting: The Language of Business*:

- Expanded Lesson 12
- Expanded Lesson 16

Study the basics of cost accounting in Lesson 12 and then continue your study of cost estimation and cost-volume-profit techniques and concepts in Lesson 16.

**Message Board: Operating Leverage**

Perform an Internet search to locate an article that identifies a company's break-even point or operating leverage. After reading the article, write a brief summary with comments on the article. Post your summary to the message board. Also respond to the posts of your peers.

**Expanding your C-V-P Knowledge with SkillSoft**

Complete the following SkillSoft lessons:

- [Organizational Budgeting Activities and the Master Budget](#)
- [Preparing Operating Budgets and the Cash Budget](#)
- [Planning and Preparing an Operating Budget](#)

**Introduction to Accounting Lesson 17**

Complete the following lessons in *Introduction to Accounting: the Language of Business*:

- Expanded Lesson 17

Use the lesson to review the budget techniques used to forecast the future period's operations.

**Job-Order Costing**

In a job-order costing system, the three costs of a product are tracked from raw materials to finished goods. Materials requisition forms and labor time tickets are used to assign direct materials and direct labor costs to jobs in a job costing system. Manufacturing overhead costs are assigned to jobs using a predetermined overhead rate. The predetermined overhead rate is most frequently allocated using direct labor hours and machine hours. Overhead is applied to jobs by multiplying the predetermined overhead rate by the actual amount of the allocation base used by the job. When overhead is over-applied or under-applied, the manufacturing overhead costs must be adjusted to ensure that all actual costs are recorded. Inventories and/or expenses must be adjusted to reflect the necessary change.

As a new graduate accountant you could be hired by a home construction company. Each house built would be a discrete project or job. It would be your responsibility to monitor the costs added to the project so management can be informed about any cost problems on a timely basis. You will need to be able to determine a product cost and a period cost so you can
provide management with accurate, reliable data.

**Cost Flow in Job-Order Costing**

Job-order costing is used to accumulate the costs of a project. This costing system is used for discrete items not produced in a continuous flow operation.

This topic addresses the following competency:

- **Competency 308.1.2: Cost/Benefit Analysis**
  The student understands how to use job-order costing.

After completing this topic's activities, you will be able to answer the following questions:

- How direct costs flow through a job-order costing system?
- In what type of situations job-order costing would be appropriate to use?

**Job-Order Costing**

Read the following in *Managerial Accounting*:

- [Chapter 3 ("Job-Order Costing") pages 85-102](#)

Be sure to identify the three primary costs that go into a product and how the costs are tracked from raw materials through finished goods.

**Introduction to Accounting Lesson 13**

Complete the following lesson in *Introduction to Accounting: The Language of Business* as you study the differences in job order costing and process costing:

- Expanded Lesson 13

**Estimating and Correcting Overhead Costs**

Overhead is applied to projects as estimates since the actual data is not available. For instance utilities are overhead costs and companies usually have some historical records that could provide a good basis for estimates. The key is providing timely, accurate cost data for management decisions.

This topic addresses the following competency:

- **Competency 308.1.2: Cost/Benefit Analysis**
  The student understands how to use job-order costing.

After completing this topic's activities, you will be able to answer the following questions:

- How are overhead costs applied in a job-order costing system?

**Overhead**

Read the following in *Managerial Accounting*:
Overhead is estimated during production so management can have reliable estimations of the costs in the product in a timely manner. Study how overhead is added to the "Work in Process" inventory account as production occurs.

**Correcting Applied Overhead Cost to Actual Costs**

Once the actual overhead costs are known, the cost data is corrected. You will learn the technique used to make this correction to the accounting system.

This topic addresses the following competency:

- **Competency 308.1.2: Cost/Benefit Analysis**
  The student understands how to use job-order costing.

After completing this topic's activities, you will be able to answer the following questions:

- What are the alternative methods for disposing of applied overhead balances?

**Correcting Cost Data**

Read the following in *Managerial Accounting*:

- **Chapter 3 ("Job-Order Costing") pages 104-107**

Study how the estimation used for overhead is corrected when the actual costs are known.

**Chapter 3 Website Support**

Use the textbook companion website to complete the following activities for Chapter 3:

- Review the chapter material in the student PowerPoint presentation.
- Click on the video library and watch the video(s) for this chapter.
- Complete the multiple-choice quiz.
- Complete the practice exams for the chapter, then check your answers at the end of the exam.

**Message Board: Job-Order Costing**

Use the Science Channel's How It's Made website to access some short clips. You can select a different product that is interesting to you from a tabulated list on the right.

Write a brief summary that identifies the product and why the company making the product would or would not use a job-order costing system. Post your summary on the product to the "Correcting Applied Overhead Cost to Actual Cost" topic in the message board. Also respond to the posts of your peers.

**Process Costing**

Process-cost reporting is based on a set time period. There will usually be some production in
process at the end of the time period. You will study how equivalent full units are determined. The activity in a department is summarized on a production report, which has three separate (though highly interrelated) parts. This report summarizes the full equivalent units produced and summarizes the costs of the production.

As the managerial accountant for a company that produces paint, you would be responsible for determining the units made during the period and the number of equivalent units in production when the period ended. The total cost and total number of equivalent units would be used to determine the cost of a single unit of output.

Process costing is used in situations where homogeneous products or services are produced on a continuous basis. A process costing system differs from a job-order system primarily in that costs are accumulated by department (rather than by job) and the department production report replaces the job cost sheet.

**Process Costing?Equivalent Units**

In a continuous flow production environment the cost reporting is completed based on the number of units produced during a time period and the costs added to make the units. Some units will be partially complete so the managerial accountant needs to determine the number of equivalent complete units represented in production at the end of the time period.

This topic addresses the following competency:

- **Competency 308.1.1: Process Costing**
  The student understands how to use process costing.

After completing this topic's activities, you will be able to answer the following questions:

- How do materials costs and conversion costs flow through a process costing system?
- How is the cost per equivalent unit calculated when using the weighted-average method?

**Process Costing**

Read the following in *Managerial Accounting*:

- Chapter 4 ("Process Costing") pages 143–151
- Chapter 4 ("Process Costing") Appendix 4A pages 168–172

**The Production Report**

The equivalent-units calculations studied in the last topic will provide data for a summary of the costs added to the units produced with the cost of each unit produced substantiated on the departmental production report.

This topic addresses the following competency:

- **Competency 308.1.1: Process Costing**
  The student understands how to use process costing.
After completing this topic's activities, you will be able to answer the following questions:

- How is total cost accounted for on a production report when using the weighted-average method?
- How is the cost per equivalent unit calculated when using the First in-First out method?

**Operation Costing**

Read the following in *Managerial Accounting*:

- Chapter 4 ("Process Costing") pages 151-153
- Chapter 4 ("Process Costing") Appendix 4A pages 168–172

**Chapter 4 Website Support**

Use the textbook companion website to complete the following activities for Chapter 4:

- Review the chapter material in the student PowerPoint presentation.
- Click on the video library and watch the video(s) for this chapter.
- Complete the multiple-choice quiz.
- Complete the practice exams for the chapter, then check your answers at the end of the exam.

**Message Board: Process Costing**

Using the list of company websites below, choose a website to review the information about the operations of one company and decide whether the company would be likely to use a process costing system. Write a brief summary (one paragraph) about your findings describing the reasons why the company most likely would or would not use process costing. Post your summary under the "Production Report" topic in the message board. Also respond to the posts of your peers.

- Biolea
- Evian
- Ircon International Limited
- Gulf Craft Inc.

**Variable and Absorption Costing**

Variable and absorption costing are alternative methods of determining unit product costs. Variable costing is useful for management decisions but cannot be used for financial reporting. Absorption costing reports are in the form of the normal financial accounting income statement. As you study the overhead and report differences in the income statements, focus on the relevant information, those items that change. Managerial accounting is primarily concerned with cost control and cost accuracy. There are some advantages to the separation that the variable format provides. Are there disadvantages? Consider the question as you study the methods.

The primary difference in the two methods is how fixed costs are reported. In your study for this
unit you will discover the impacts of these two methods and determine advantages and disadvantages of each income statement type.

**Net Income Effects and Reporting Choice**

The variable costing and absorption costing concepts are important as the managerial accountant completes the CVP analysis for management. It is up to you as the managerial accountant to provide a full view to management on the firm's net income. The costing method matters.

This topic addresses the following competency:

- **Competency 308.1.5: Variable and Absorption Costing**
  The student understands variable and absorption costing.

After completing this topic's activities, you will be able to answer the following questions:

- What is the effect of variable costing on net income?
- What is the effect of absorption costing on net income?
- What is the difference in net income calculated under absorption costing versus net income calculated under variable costing?
- What are the advantages and disadvantages of variable costing?
- What are the advantages and disadvantages of absorption costing?

**Variable Costing**

Read the following in *Managerial Accounting*:

- Chapter 6 ("Variable Costing and Segment Reporting: Tools for Management") pages 230-242

**Chapter 6 Website Support**

Use the textbook companion website to complete the following activities for Chapter 6:

- Review the chapter material in the student PowerPoint presentation.
- Click on the video library and watch the video(s) for this chapter.
- Complete the multiple-choice quiz.
- Complete the practice exams for the chapter, then check your answers at the end of the exam.

**Message Board: Variable Costing**

Respond to one of the statements below and post your views to the "Variable Costing vs. Absorption Costing: Choosing a Method" topic in the message board. Also respond to the posts of your peers. Use a web resource if you like, but be sure to provide the appropriate citation for the article.

- Variable costing does not have any effect on the balance sheet.
- The manager of a service business will get excellent information for management
decisions by using variable costing techniques.

- The income statement used to report to outside stakeholders is providing misinformation.

Expanding Your Variable and Absorption Costing Knowledge with SkillSoft

Review the following SkillSoft lessons.

- Planning and Preparing an Operating Budget

**Activity-Based Costing**

To build an activity-based costing (ABC) system, companies typically choose a small set of activities that summarize much of the work performed in overhead departments. Associated with each activity is an activity cost pool. To the extent possible, overhead costs are directly traced to these activity cost pools. Interviews with managers often form the basis for these allocations.

There are two stages of allocation. In the first allocation, an activity rate is computed for each cost pool by dividing the costs assigned to the cost pool by the measure of activity for the cost pool. In the second-stage allocation, the activity rates are used to apply costs to cost objects. In your study you should follow the steps of the ABC process from the costs included through the allocation process and then the amount of cost assigned to each product.

Traditional cost accounting methods suffer from several defects that can result in distorted costs for decision-making purposes. The activity-based costing system is designed to correct these traditional costing methods deficiencies by assigning costs to the productive unit that used the resource.

**ABC and Allocating Costs**

Activity-based costing provides a more accurate application of overhead costs to jobs that require the overhead item. If you are asked to help implement an ABC system you will find that it requires a lot of data, many decisions about the relevant costs, and cooperation from the production staff. A successful implementation will require a collaborative team effort.

This topic addresses the following competency:

- **Competency 308.1.5: Activity-Based Costing**
  The student understands activity-based costing.

After completing this topic's activities, you will be able to answer the following questions:

- What are the correct criteria to use when assigning overhead costs to products? (Note: Consider both manufacturing and non-manufacturing costs.)
- How does recording idle capacity cost in an activity-based costing system differ from recording idle capacity cost in a traditional cost system?
- What are first-stage and second-stage allocations in activity-based costing systems?
Read the following in *Managerial Accounting*:

- **Chapter 7 ("Activity-Based Costing: A Tool to Aid Decision Making")**

After reading this chapter you should understand what a production standard is, how a deviation from the standard is reported, and if the reason for the deviation should be investigated.

**Chapter 7 Website Support**

Use the textbook companion website to complete the following activities for Chapter 7:

- Review the chapter material in the student PowerPoint presentation.
- Click on the video library and watch the video(s) for this chapter.
- Complete the multiple-choice quiz.
- Complete the practice exams for the chapter, then check your answers at the end of the exam.

**Message Board: Activity-Based Costing**

Use the Science Channel's *How It's Made* website to access a short promotional video. A product video will begin showing immediately thereafter. You can select a different product that is interesting to you from a tabulated list on the right.

View a video and write a brief summary that identifies the product and explains whether activity-based costing would benefit the company with improved product costing or if one of the traditional approaches is sufficient. Post your summary and thoughts to the "ABC and Allocating Costs" topic discussion in the message board. Also respond to the posts of your peers.

**Expanding Your Activity Based Costing Knowledge with SkillSoft**

Review the following SkillSoft lesson:

- Planning and Preparing an Operating Budget

**Introduction to Accounting: Language of Business**

Complete the following lessons in Introduction to Accounting: Language of Business:

- Expanded Lesson 15

Use the lesson to review activity based costing techniques and how this costing method compares to the traditional approaches to costing.

**Budgeting**

The flexible budget is an important management tool. It can be used for forecasting costs based on production ranges and after the operations are complete it can be used to compare actual costs against the standard costs that were expected for the actual units produced.

The master budget is a static budget based on one expected sales level. A flexible budget
shows what the costs should be for various levels of activity. The flexible budget is very useful when comparing the established production standards against the actual costs incurred. Any difference is considered a variance.

**Flexible Budgeting**

The flexible budget is one of the primary tools used by the managerial accountant to assess if the products were made in a cost-effective manner. The actual units produced are valued at the standard costs, which is then compared to the actual costs in making the products. This is a valuable tool in the managerial accountant's toolbox.

This topic addresses the following competency:

- **Competency 308.1.7: Developing Budgets**
  The student can develop various forms of operating budgets, including a flexible budget system.

After completing this topic's activities, you will be able to answer the following question:

- What are the benefits and limitations of a flexible budget system?

**Flexible Budgets**

Read the following in *Managerial Accounting*:

- **Chapter 9 ("Flexible Budgets and Performance Analysis")**

**Chapter 9 Website Support**

Use the [textbook companion website](#) to complete the following activities for Chapter 10:

- Review the chapter material in the student PowerPoint presentation.
- Click on the [video library](#) and watch the video(s) for this chapter.
- Complete the multiple-choice quiz.
- Complete the practice exams for the chapter, then check your answers at the end of the exam.

**Message Board: Flexible Budget**

Take a tour and learn how chocolate is made on the [Hershey website](#). You will need to post your reply to one of the following questions:

1. What types of specific factory overhead costs might the company incur?
2. If the company prepared a flexible budget, which specific types of costs might be variable? Fixed?
3. On what basis might factory overhead costs be applied to the products as they are produced?

Post your comments in the message board. Also respond to the posts of your peers.

**Expanding Your Budgeting Knowledge with SkillSoft**
Review the following SkillSoft lesson.

- Organizational Budgeting Activities and the Master Budget
- Preparing Operating Budgets and the Cash Budget

**Variances**

Standards are normally set so that they can be attained by reasonable, though highly efficient, efforts. Such "practical" standards are believed to positively motivate employees.

Variances are computed and reported to management on a regular basis for both the price and the quantity elements of direct materials, direct labor, and overhead.

Not all variances require management time or attention. Only unusual or particularly significant variances should be investigated. The point of the investigation is to pinpoint the problem so that it can be fixed and operations improved.

A standard is a benchmark or norm for measuring performance. Standards are set for both the cost and the quantity of inputs needed to manufacture goods or to provide services. Quantity standards indicate how much of an input such as labor time or raw materials should be used to make a product or provide a service. Cost standards indicate what the cost of the input should be. A deviation from these prescribed production standards is a variance.

Variances occur due to many circumstances. Traditional standard cost variance reports are often supplemented with other performance measures. Overemphasis on standard cost variances may lead to problems in other critical areas such as product quality, inventory levels, and on-time delivery. The balanced scorecard is a promising approach to managing organization that provides a means for guiding the company and also provides feedback concerning the effectiveness of the company's strategy.

**Reporting Variances from Standards**

Once the flexible budget is produced, the standard costs and actual costs incurred are compared and variances are produced. The managerial accountant can then provide the variances as an evaluation tool for the production managers for any corrective actions necessary.

This topic addresses the following competency:

- **Competency 308.1.3: Variances**
  The student understands how to use a standard cost system for computing variances and explaining their significance.

After completing this topic's activities, you will be able to answer the following questions:

- What are direct materials standards?
- What are direct labor standards?
- How are direct materials variances computed (Note: address price and quantity
How are direct labor variances computed (Note: address rate and efficiency variances)?

How are variable manufacturing overhead variances computed (Note: address spending and efficiency variances)?

What criteria are used to decide whether a variance is favorable or unfavorable?

What are possible causes of each type of favorable and unfavorable variances?

**Standard Costs and Variances**

Read the following in *Managerial Accounting*:

- Chapter 10 ("Standard Costs and Variances")

After reading the chapter you should understand what a production standard is, how a deviation from the standard is reported, and if the reason for the deviation should be investigated.

**Chapter 10 Website Support**

Use the textbook companion website to complete the following activities for Chapter 10:

- Review the chapter material in the student PowerPoint presentation.
- Click on the video library and watch the video(s) for this chapter.
- Complete the multiple-choice quiz.
- Complete the practice exams for the chapter, then check your answers at the end of the exam.

**Introduction to Accounting Lesson 14**

Complete the following lessons in *Introduction to Accounting: The Language of Business* as you study the flexible budget, setting standards, and variances:

- Expanded Lesson 14

**Message Board: Standards and Variances**

Take a tour of Linetec Company on the Linetec website. Standards are set and used by companies for budgeting, benchmarking, performance measurement, and control purposes. From the virtual plant tour of Linetec Company, identify a standard that should be set, who should be responsible for setting it, how it should be measured, and what corrective action should be taken if the standard is not being maintained.

Post your comments to the "Standards and Variances" discussion thread in the message board. Also respond to the posts of your peers.

**Relevant Costs for Decision Making**

Only those costs and benefits that differ between alternatives are relevant in a decision. All other costs and benefits are irrelevant and should be ignored.

This simple idea of costs that differ is applied in a variety of situations including decisions that
involve making or buying a component, adding or dropping a product line, processing a joint product further, and using a constrained resource. This list includes only a small sample of the possible applications of the relevant cost concept. Indeed, any decision involving costs hinges on the proper identification and analysis of the costs that are relevant.

Some processes produce a product that can be sold but also provide companies the chance to take advantage of other market opportunities by adding further processes to get a different product. The oil industry is a great example. Refining oil further will yield a different product.

Managers use costs organized by behavior as a basis for many decisions. To facilitate this use, the income statement can be prepared in a contribution format. The contribution format income statement classifies costs by cost behavior (i.e., variable versus fixed) rather than by the functions of production, administration, and sales.

**Differential and Cost/Benefit Analysis**

As a managerial accountant you will be asked to help management determine the best approach to take in many business decisions.

This topic addresses the following competency:

- **Competency 308.1.6: Cost/Benefit Analysis**
  The student can use cost/benefit analysis in making decisions.

After completing this topic, you will be able to answer the following questions:

- How does differential analysis affect decisions?
- What is the impact of marginal costs, sunk costs, and opportunity costs on decisions?
- What are the relevant costs and benefits that should be considered when deciding whether to drop or add a product line or department?
- What costs and benefits should be considered when deciding whether to accept or reject a special order?
- What costs and benefits should be considered when deciding whether to make or buy?
- What costs and benefits should be considered when deciding whether to sell joint products at the split-off point or to process them further?

**Differential Analysis**

Read the following in *Managerial Accounting*:

- **Chapter 12 ("Differential Analysis: The Key to Decision Making")**

After reading this chapter you should be familiar with relevant costs, the basics of differential analysis, and methods used to make special decisions related to products offered by the company.

**Chapter 12 Website Support**

Use the [textbook companion website](#) to complete the following activities for Chapter 12:
- Review the chapter material in the student PowerPoint presentation.
- Click on the video library and watch the video(s) for this chapter.
- Complete the multiple-choice quiz.
- Complete the practice exams for the chapter, then check your answers at the end of the exam.

**Message Board: Relevant Costs for Decision Making**

Perform an Internet search for "joint costs." Find an article that identifies a raw material that outputs multiple main products. Write a brief summary of your findings. Your critique should provide the appropriate citation for the article.

Post your comments to the "Relevant Costs for Decision Making" discussion thread in the message board. Also respond to the posts of your peers.

**Introduction to Accounting: Language of Business**

Complete the following lessons in Introduction to Accounting: The Language of Business:

- Basic Lesson 15
- Expanded Lesson 17

Use these lessons to study special decisions that management sometimes must consider for special orders, shutting down part of the operation, etc., and the budgeting techniques that can be used in the analysis necessary to make these decisions.

**Expanding Your Differential Analysis Knowledge With SkillSoft**

Complete the following SkillSoft lessons.

- **Using Budgets for Management and Control**

**Quality Reporting**

Customers seek a quality product at a reasonable price. The cost of quality varies depending on when a product deficiency is identified and corrected.

This topic addresses the following competency:

- **Competency 308.1.6: Cost/Benefit Analysis**
  - The student can use cost/benefit analysis in making decisions.

After completing this topic, you will be able to complete the following items:

- Identify the costs of quality.
- Produce a quality cost report.

**Cost of Quality**

Read the following in Managerial Accounting:
After reading these pages you should be familiar with different levels of cost and the quality cost report.

**Cost Centers, Segments, Decentralization, and Balanced Scorecard**

Cost centers are commonly evaluated using standard cost and flexible budget variances. Profit centers and investment centers are evaluated using the techniques discussed in this section.

Segmented income statements provide information for evaluating the profitability and performance of divisions, product lines, sales territories, and other segments of a company. A cost is considered traceable to a segment only if the cost is caused by the segment and could be avoided by eliminating the segment.

Return on investment (ROI) and residual income, and its cousin, economic value added (EVA), are widely used to evaluate the performance of investment centers. You will discover some of the advantages and disadvantages of these measures as you work in the material.

How should two divisions of the same company that are both profit or investment centers charge each other for the goods used in the final finished product? There are multiple methods that can be used to price the goods.

There are three different types of cost centers: cost, profit, and investment. The management responsibilities differ for each type of center. Operational evaluation is enhanced with some of the other tools presented in the unit.

**Cost Centers and Reportable Segments**

Managers sometimes compete with each other in the same company. In a decentralized structure, managers have substantial decision-making responsibilities. These managers could also earn bonuses based on their success. You could be asked to evaluate how well a factory has used its company's invested capital.

This topic addresses the following competency:

- **Competency 308.1.10: Management Tools and Data**
  The student understands accounting data, reports, and tools used by management.

After completing this topic's activities, you will be able to complete the following items:

- Identify the type of cost center is applicable to a company segment.
- Determine if centralized or decentralized management should be used for given situations.
- Calculate return on investment and economic value added.
Read the following in *Managerial Accounting*:

- **Chapter 11** ("Performance Measurement in Decentralized Organizations")

After reading this chapter you should understand cost centers, segment reporting, and measurement tools like return on investment (ROI) that measure success in using the limited capital of the business organization.

**Chapter 11 Website Support**

Use the textbook companion website to complete the following activities for Chapter 11:

- Review the chapter material in the student PowerPoint presentation.
- Click on the video library and watch the video(s) for this chapter.
- Complete the multiple-choice quiz.
- Complete the practice exams for the chapter, then check your answers at the end of the exam.

**Message Board**

The Coca-Cola Company uses an EVA approach to measure performance which it calls economic profit. Go to Coca-Cola's website and locate its most recent annual report to shareowners. Read the "Financial Highlights" and "Glossary" sections for further information and reporting of the company's economic profits. Review the method that the company used to calculate economic profit, and comment on how Coke's economic profits have been reported over the last three years. Post your comments to the "Measures of Success" discussion thread in the message board. Also respond to the posts of your peers.

**Expanding Your Cost Center and Reportable Segment Knowledge with SkillSoft**

Complete the following SkillSoft lesson.

- **Using Budgets for Management and Control**

**Transfer Pricing**

As a managerial accountant you could be called on to help a manager determine the best transfer price for the factory's product.

This topic addresses the following competency:

- **Competency 308.1.10: Management Tools and Data**
  The student understands accounting data, reports, and tools used by management.

After completing this topic's activities, you will be able to complete the following item:

- Determine the appropriate use of transfer pricing.

**Additional Website Support**

Click on the textbook companion website's video library and view the following videos in the
"Additional Videos" section:

- "Transfer Pricing"
- "Balanced Scorecard"

Final Steps

Congratulations on completing the activities in this course! This course has prepared you to complete the assessments associated with this course. If you have not already been directed to complete the assessments, schedule and complete your assessments now.