



Course information 2011–12

AC3097 Management accounting

This course is designed to give a grounding in the key concepts and techniques of management accounting.

Prerequisite

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

AC1025 Principles of accounting.

Aims and objectives

The two aims of this course are to familiarise students with contemporary management accounting ideas and practices and to enable them to use a range of key management accounting techniques. Emphasis is laid on the strategic potential of the management accounting function for organisations.

Essential reading

For full details please refer to the reading list.

Hornigren, Charles T., Srikant M. Datar and George Foster *Cost Accounting: a managerial emphasis* (Prentice Hall)

The book is updated regularly; students are advised to purchase the latest edition.

Assessment

This course is assessed by a three hour and 15 minute unseen written examination which includes 15 minutes of reading time.

Learning outcomes

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

- ✓ assess the possible uses of information for different types of decision making
- ✓ calculate and distinguish between different types of costs and explain the role of costs for pricing and other business decisions
- ✓ prepare budgets and explain the significance of budgets for planning and control
- ✓ explain the functioning of costing systems and analyse, calculate and interpret variances
- ✓ discuss the problems of performance measurement and control in divisionalised organisations and calculate simple measures of performance
- ✓ explain the changing role of management accounting.

Students should consult the *Programme Regulations for degrees and diplomas in Economics, Management, Finance and the Social Sciences* that are reviewed annually. The Prerequisites, Exclusions, and Syllabus are subject to confirmation in the *Regulations*. Notice is also given in the *Regulations* of any courses which are being phased out and students are advised to check course availability.

Syllabus

This is a description of the material to be examined, as published in the *Regulations*. 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.

This course is designed to give students a grounding in the key concepts and techniques of management accounting, and to prepare them for the use of recent innovations in the management accounting function. Traditionally concerned with the recording and measurement of costs, management accountants have increasingly become concerned with supporting the management of organisational strategy. This entailed the inclusion of non-financial information in management accounting reports that are becoming increasingly tailored to organisational circumstances. Underlying this work of information provision is a core of economic principles, to which reference is made throughout the course.

The syllabus is arranged in three parts. The first section introduces traditional and contemporary functions of management accounting and some of the key economic concepts underlying management accounting. The second section covers costing principles and costing systems, with some recent managerial applications, such as Activity Based Management. The third section puts costing principles and systems into context by explaining what roles they would play as part of an organisation's performance measurement and strategic management accounting systems.

Section 1

Modern management accounting: Overview; Definition; Traditional management accounting; Ongoing changes; The 'new' management accounting function.

Decision-making: Economic foundations; Uncertainty; The value of information; Relevant information and relevant costs.

Section 2

Cost behaviour: Cost terminology; Cost behaviour; Fixed & variable costs; CVP (cost-volume-profit analysis); Cost estimation.

Costing and pricing: Direct vs indirect costs; Short-term decisions with one scarce resource; Linear programming; Shadow prices and opportunity costs.

Budgeting and control: Budgets; Control; Direct and indirect cost variances; Variance analysis; Beyond Budgeting.

Traditional cost systems: Systems in accounting; Job, batch & process costing; Overhead allocation; Overhead absorption; Accounting for inventory; FIFO; Weighted average method.

Activity Based Costing (ABC): "Overhead creep"; Product diversity and accounting uniformity; Cost attribution; Cost pools; Cost drivers; Activity analysis; Implications for pricing; Activity Based Management (ABM); Problems with ABC.

Inventory costing: Standards; Actual, normal & standard costing; Standard costing systems; Output levels and profits; Production volume variance; Absorption (or full) costing; Marginal (or direct) costing; Over and under-applied overheads; Income effects.

Section 3

Performance measurement systems: Divisional performance measurement; Components of the performance measurement system; Responsibility centres; Financial measures; Transfer prices; Shareholder value concepts; Non-financial performance measures.

Strategic management accounting: Introduction to strategy; Target costing; Life cycle costing; Cost of quality; The Balanced Scorecard; The future of management accounting.