

Page 1: Core Managerial Accounting Concepts

1. Foundations of Managerial Accounting

- **Purpose:** Provide information for **planning, controlling, and decision-making**.
- **Key Difference from Financial Accounting:** Internal focus, future-oriented, no GAAP requirement.
- **Pillars:** Planning, Controlling, Decision Making (not profit maximization).

2. Cost Classifications

- **Product Costs:** Direct materials, direct labor, manufacturing overhead.
- **Period Costs:** Selling and administrative expenses.
- **Direct vs. Indirect Costs:**
 - *Direct materials:* Traceable to the finished product.
 - *Indirect materials/labor:* Part of manufacturing overhead.
- **Manufacturing Overhead:** Indirect materials, indirect labor, depreciation, insurance, maintenance.
- **Conversion Costs:** Direct labor + manufacturing overhead.

3. Job-Order Costing

- Used when products are unique or produced in distinct batches.
- **Predetermined Overhead Rate (POHR):**
 - $\text{Estimated total overhead} \div \text{estimated total activity (e.g., machine-hours or labor-hours)}$.
- **Journal Entries** (high-level):
 - Direct materials → Work in Process (WIP)
 - Indirect materials/labor → Manufacturing Overhead
 - Completed jobs → Finished Goods
 - Sold jobs → Cost of Goods Sold
- **Improving Accuracy:** Multiple predetermined overhead rates.

4. Activity-Based Costing (ABC)

- Overhead assigned based on **activities** and **cost drivers**.
 - Common result: Costs shift from **high-volume to low-volume products**.
 - **Activity Rate** = $\text{Estimated overhead} \div \text{expected activity}$.
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Page 2: CVP Analysis, Budgeting, Performance, and Decision Making

5. Process Costing

- Used for continuous, homogeneous production.
- **Transferred-In Costs:** Costs received from prior departments.
- **Equivalent Units (Weighted-Average):**
 - Units completed + equivalent units in ending WIP.

6. Contribution Margin & CVP

- **Contribution Margin** = Sales – Variable costs.
- **Break-Even Point:** Level of sales where total revenue = total costs.

7. Variable vs. Absorption Costing

- **Variable Costing:** Product cost includes only variable manufacturing costs.
- **Absorption Costing:** Includes variable + fixed manufacturing overhead.

8. Budgeting & Variance Analysis

- **Operating Budgets:** Typically prepared for **one fiscal year**.
- **Production Budget:** Based on sales forecast and desired ending inventory.
 - **Flexible Budgets:** Adjust costs for actual activity level.

9. Performance Measurement

- **Return on Investment (ROI):**
 - $\text{Net operating income} \div \text{average operating assets}$.
- **Residual Income:**
 - $\text{Net operating income} - \text{required return}$.
 - Encourages decisions beneficial to the whole company.

10. Relevant Costing & Decision Making

- **Relevant Costs:** Future costs that differ between alternatives.
 - **Sunk Costs:** Already incurred; always irrelevant.

11. Capital Budgeting

- **Methods:**
 - Payback Period (ignores time value of money)
 - Net Present Value (NPV)
 - Internal Rate of Return (IRR)
- **NPV Decision Rule:** Accept projects with $\text{NPV} > 0$.