

CBAT, KUSHITIA

Management Accounting

Lecture

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Management Accounting

1st chapter

1. Define Management accounting?

Ans: Management accounting.: Management accounting is a field of accounting that analysis and provides cost information to the internal management for the purpose of planning, organizing, directing, controlling and decision making.

According to Institute of Chartered Accountants in England & Wales, "Management accounting is that form of accounting which enables a business to be conducted more efficiently."

. According to R. N. Anthony, "Management accounting is concerned with accounting information that is useful to management."

2. Write down the scope of management accounting.

Ans: Scope of Management accounting: The scope of management accounting is very wide. The main aim is to help management in its functions of planning, directing and controlling. The following are some of the areas of specialization of management accounting.

Financial accounting : Financial accounting is the general accounting which relates to the recording of business transactions in the books of prime entry, posting them in to respective ledger accounts, balancing them and preparing a trial balance. / **Cost accounting:** Cost accounting is a branch of accounting. It is the process and technique of ascertaining costs. Planning, decision-making and control are the basic managerial functions./ **Inventory control:** The management should determine different levels of stock - Minimum Stock Level, Maximum Stock Level, Re-order Stock Level, for inventory control./ **Interpretation of data:**

Analysis and interpretation of financial statements are important parts of management accounting. / **Tax accounting:** Income statements are prepared and tax liabilities are calculated. The management is informed about tax burden from central government, state Government and local authorities./ **Budgeting and forecasting:** Management accounting has to make a choice of one course of action out of the several alternative course of action available, it involves budgeting and forecasting./ **Statistical method:** Statistical method used in the management accounting, because it is the helpful and show the profit or loss of the organization by the statistic method./ **Management information system (MIS):** Management information system is an organized combination of people hardware, software, communication network and data resources that collect transforms and disseminates information in an organization./ **Control process and method:** Management accounting must be control process system of every organization, because management accounting is success or improving by the control process and method./ **Reporting to management :** Reporting is the correcting information of managerial function that submitted to the organization for collect accounting statement.

03: Write down the role of Management accounting.

Answer: Planning and forecasting: Planning is concerned with future activity and formulates budgets to meet the objectives of the organization./ **Organizing:** This is the important role of management accounting. Organizing as the identification and classification of required activities and the grouping of activities necessary to attain objectives/ **Coordinating:** Coordination is the separate function of the management accounting. It seems more accurate, however, to regard it as the essence of managership, for achieving harmony among individual efforts toward the accomplishment of group goals./ **Controlling:** Controlling is that part of the management activity whereby managers compare actual performance against the planned performance, find out the deviations and take remedial steps to remove the deviations./ **Motivation:** A general term applying to the entire class of drives, desires, needs, wishes, and similar forces of management accounting/ **Policy of formulation:** Activities that are not required as part of one's formal role in the management accounting, but that influence, or attempt to influence, the distribution of advantages and disadvantages within the management accounting./ **Reporting:** Reporting is the correcting information of managerial function that submitted to the organization for collect accounting statement./ **Decision making:** Since management has to make a choice of one course of action out of the several alternative course of action available, it involves decision-making./ **Management Information system:** Management information system is an organized combination of people hardware, software, communication network and data resources that collect transforms and disseminates information in an organization./ **Communication:** Communication is the major role of management accounting. Any organization or managers can not develop managerial skill without communication.

04 Write down the technique/tools of management accounting.

Answer: Technique/tools of management accounting: Management accounting is concerned with accounting information that is useful to management. The important tools and techniques used in management accounting are discussed below –

Historical costing: It is a technique of management accounting where costs are ascertained after they are incurred. It is a postmortem of the cost.

Standard costing: Standard costing is an important tool of cost control which is one of the main objectives of management accounting. This technique consists of-(i) Setting up standards for each element of cost; (ii) Comparing the actual cost with the standard cost; and (iii) Finding the reasons for the differences or variances and taking remedial action promptly as they are called standard costing.

Absorption costing: absorption costing treats all manufacturing costs as product costs, regardless of whether they are variable or fixed.

Variable costing: under variable costing, only those manufacturing costs that vary with output are treated as product costs.

Budgetary control: One of the essential features of modern management is planning and control. There are a number of devices which help in controlling.

Ratio accounting: ratio accounting signifies the technique and methodology of analysis and interpretation of financial statements by means of accounting ratios derived from such statements.

05. Write down the relations and differences between management accounting and financial accounting.

Answer: Primary user : (i) Organization managers various levels (ii) Outside parties such as investors and government agencies but also organization managers

Freedom of choice : (i) No constraints other than costs in relation to benefits of improved management decisions. (ii) Constrained by generally accepted accounting principles (GAAP).

Behavioral implications : (i) Concern about how measurements and reports will influence managers' daily behavior. (ii) Concern about how to measure and communicate economic phenomena. Behavioral considerations are secondary, although executive compensation based on reported results may have behavioral impacts.

Time focus : (i) **Future orientation:** formal use of budgets as well as historical records. Example, 19x9 budget versus 19*9 actual performance (ii) Past orientation; Historical evaluation. Example actual performance versus 19*8 actual performance.

Time span : (i) Flexibility varying from hourly to 10 to 15 years. (ii) Less flexible, usually 1 year or 1 quarter.

Reports : (i) Details reports: concern about details parts of the entity, products, departments, territories etc. (ii) Summary reports: concern primarily with entity as a whole.

Delineation of activities : (i) Fields is less sharply defined, However use sciences, and behavioral sciences. (ii) Field is more sharply defined. Lighter use of related disciplines.

06. Write down the relations and distinctions between cost accounting and management accounting.

Ans : Objective : (i) The primary objective of cost accounting is to determine cost of producing a product or providing a service. (ii) Management accounting is to provide information to the management for planning and controlling and decision making.

Data used : (i) Only quantitative data is recorded in cost accounting. (ii) Management accounting uses both quantitative and qualitative information.

Nature : (i) Cost accounting is based on past and present facts and figures. (ii) Management accounting deals with future plans on the basis of past and present cost data.

Provide information : (i) Cost accounting provides information both of internal and external parties. (ii) Management accounting provides information only internal parties.

2nd Chapter

15. Variable costs are always relevant cost". Do you agree?

Answer: Variable costs are always relevant cost: Variable costs are always relevant cost, I agree with this conception. Because, I know that, Variable cost is a cost that charges in direct proportion in charges in the output measure of resources and activities.

Now, I can say that a relevant cost also applies to variable costs. That is, outside a relevant cost, some variable cost, such a fuel consumed, may behave differently per unit of output measure of resources and activity.

08. Define the term "Opportunity Cost" with appropriate example?

Answer: Opportunity cost: Another consideration in make or buy decisions is whether the firm has alternative uses for its facilities if it should decide to buy the product from an outside supplier. If it can use the facilities to earn additional revenue, it may be better to buy on the outside rather than loss this revenue, loss revenue represent an opportunity cost.

For example, in the make or buy situation discussed above, assume that Balson manufacturing company has an alternative use for the facilities that it now user to make the part. If it buys the part on the outside, it can use its facilities to manufacture another product that will provide a segment margin of \$25,000. If it continues to make the part, its will loss the opportunity to earn this additional segment margin. The segment margin of \$25,000 represents an opportunity cost. Balson must consider this cost its make of buy analysis.

09. What do you mean by cost behavior? Classify fixed cost recording to its behavior.

Answer: Cost behavior: Cost behavior refers to how a cost will change as the level of activity change. Manager how understand how costs will change under various alternatives. Some cost increase or decrease 'on the basis of activity increase or decrease and some cost for all time constant in the level of activity.

Classify fixed cost recording to its behavior : (i) Committed fixed costs: Committed fixed costs are those costs which are arises from yearly appropriation decision by the higher management authority. For example, insurance, depreciation, income tax. (ii) Discretionary fixed coats: Discretionary fixed costs are those costs which arc arises from yearly appropriation decision by the higher management authority for repairs and maintenance cost, advertising costs research and development cost etc.

10. What effect does and increase in volume have on.

Ans : (i) Unit fixed cost: The total fixed cost of a company is always fixed and per unit cost is variable, if fixed cost increase in volume then it is changeable, and it is not stability.

(ii) Unit variable cost; The total variable cost of a company is always variable and per unit cost is fixed. If increase in volume of variable cost then unit variable cost is always fixed. It is not changeable.

(iii) Total fixed cost; Think of fixed cost as a total. Total fixed costs remain unchanged regardless of changes in output measure of resources and activities.

(iv) **Total variable cost:** Think of the total variable costs on per unit basis. The per unit variable cost remains unchanged regardless of changes in output measure of resources and activity.

(v) **Total mixed cost:** A cost that contains both total fixed and total variable elements.

11. Distinguish between product cost and period cost.

Answer : product cost : (i) Cost identified with goods produced or purchased for resale. (ii) Product costs are initially identified as part of the inventory on hand. (iii) In manufacturing accounting, many of those items are related to production activities and thus, as indirect manufacturing are product costs. (iv) Become expenses in the form of costs of goods sold as the inventory is sold.

period cost (i) Costs that are deducted as expenses during the current period without going through an inventory stage (ii) Period costs are identified expenses during the current period. (iii) In Merchandising and manufacturing accounting, selling and general administrative costs are period costs. (iv) Expenses of the current period.

12. What is relevant cost in decision?

Answer: Relevant cost in decision: Making business decisions requires managers to compare two or more alternative courses of action.

01. It must be expected future revenue or cost; and 02. It must have an element of difference among the alternatives.

Relevant information : is the predicted future costs and revenues that will differ among the alternatives.

13. State the main feature of fixed cost and variable cost, Mention the method of separation/segregation of mixed cost, variable cost; and fixed cost.

Answer: (i) Feature of fixed costs: Total costs fixed (No change);/ Per unit costs variable (Increase or Decrease). (ii) **Feature of variable costs:** Total costs variable (Increase or Decrease);/ Per unit costs fixed (No change). (iii) **Separation of mixed cost:** High and low points method./ Least square method./ Scatter graph method. (iv) **Separation of variable cost;** True variable costs./ Step variable costs. (v) **Separation of fixed cost:** Committed fixed cost; and/ Discretionary fixed cost,

14. What are the elements of a mixed cost?

Answer: Elements of mixed costs: Mixed costs contain elements of both fixed- and variable- cost behavior. As with step costs, the fixed element is determined by the planned range of activity level. Unlike step costs, through, usually in a mixed cost there is only one relevant range of activity and one level of fixed cost. The variable- cost element of the mixed costs is a purely variable cost that varies proportionately with activity within the single relevant range. In a mixed cost, the variable cost is incurred in addition to fixed cost: the total mixed cost is the sum of the fixed cost plus the variable cost.

15. Distinguish between committed cost and discretionary cost.

Ans :

committed cost (i) Committed fixed costs usually arise from the possession of facilities, equipment, and a basic organization: large, indivisible chunks of cost that the organization is obligated to incur or usually would not consider avoiding. (ii) Committed fixed costs are those costs which arise from yearly appropriation decision by the higher management authority (iii) Committed fixed costs include mortgage or lease payment, interest payment on long-term debt, property taxes, insurance, and salaries of key personnel.

discretionary cost (i) Costs determined by management as part of the periodic planning process in order to meet the organization's goals. (ii) Discretionary fixed costs are those costs which arise from yearly appropriation decision by the higher management authority for repairs and maintenance cost, advertising costs research and development cost etc (iii) Discretionary items such as advertising and promotion costs, public relations, research and development costs, charitable donations, employee training programs, and purchased management consulting services.

16. The differences between absorption costing and variable/direct costing are as follows.

Ans :

absorption costing : (i) Absorption cost is the practice of charging all costs, both fixed and variable to operations, process or products. (ii) Fixed manufacturing overhead is treated as a product cost and is an asset until products are sold. (iii) It includes direct materials, direct labor and both variable and fixed manufacturing overhead in the cost of a unit of product.

variable/direct costing (i) In variable costing, only manufacturing costs are assigned to units cost. (ii) Fixed manufacturing overhead is treated as a period cost and is deducted in full from the current period's revenue. (iii) It includes direct materials, direct labor and variable manufacturing overhead in the cost of a unit of product.

17. What are the arguments in favor of not changing fixed cost in the valuation of inventory under direct costing

Ans: The valuations of inventory under direct costing are not changing fixed cost because fixed cost always fixed. So, if the increases of inventory or decreases of inventory, the fixed cost are not change. So, when the valuations of inventory under direct costing then fixed costs are not changeable.

18. What do you mean by step variable cost.

Ans: The step variable costs are basically fixed within a narrow range but distinct increase when there are volume increases. A resource that is obtainable only in large chunks (such as maintenance workers) and whose costs increase or decrease only in response to fairly wide changes in activity is known as a step variable cost.

19. Why variable costing and absorption costing need income figures may or may not be equal?

Ans: If production and sales are equal, net income should be the same under variable costing and absorption costing. If production exceeds sales, absorption costing will usually show higher net income than variable costing. If any product or inventory has no fixed cost, there is no difference of income under variable costing and absorption costing.

20. A variable cost is a cost that varies per unit of product. "Where a fixed cost is constant per unit of product." Do you agree? Explain.

Ans: Variable cost is always variable or changeable but per unit cost is fixed. So, variable cost is a cost that varies per unit of product and always fixed. This point that is first point is true for me. So, I am agree for a variable cost is a cost that varies per unit of product.

21. Discuss the usages of variable/direct costing in decision making.

Ans: Under variable costing, only those manufacturing costs that vary with output are treated as product costs. This includes direct materials, variable overhead and ordinarily direct labor. Fixed manufacturing overhead is treated as a period cost and it is recorded on the income statement as incurred by contrast, direct labor, and variable overhead.

4th Chapter

22. What do you mean by CVP analysis? Discuss the underlying assumption in the cost volume profit analysis.

Ans: CVP analysis: CVP analysis is a powerful tool that helps managers understand the relationships of cost volume and profit. Cost volume profit (CVP) analysis is the relationship among cost, volume and profit, when output increases unit cost of production decrease vice versa. An analysis of the relationship among sales, volumes, costs and net profit or loss is called Break-even analysis.

Assumptions of CVP analysis: 01. Selling price is constant. The price of a product or service will not change as volume changes./ 02. Costs are linear and can be accurately divided into variable and fixed elements. 03. In multi-product companies, the sales mix is constant. / 04. In manufacturing companies, inventories do not change. The number of units produced equals the number of units sold.

23. Describe the usages of cost volume profit analysis. Explain the significance of margin of safety

Ans: 01. Prices of product./ 02. Volume or level of activity./ 03. Per unit variable costs./ 04. Total fixed cost./ 05. Mix of product sold.

24. What is break-even analysis? State it's important.

Ans: 01. Determine the actual profit and loss;/ 02. Find out the real income or losses of an organization./ 03. Understanding organizational level of investment./ 04. Easily income level and loss level are estimating.

25. Describe the three ways of lowering the break-even point

Ans: 01. The equation method: The equation method use some variation of the equation, sales = variable expenses + FC + profit, where profit are zero at the break-even point. The equation is solved to determine the break-even point in units or dollar sales./ **02. The contribution margin method:** The contribution margin method, total fixed cost is divided by the contribution margin per unit to obtain the break-even point in units. **03. The graphical method:** In the graphical method, total cost and total revenue data are plotted on a graph. The intersection of the total cost and the total revenue lines indicates the break-even point. The graph shows the break-even point in both units and dollars of sales.

26. What is meant by margin of safety? How is break-even sales level determined in case of sales mix.

Ans: Margin of safety is the difference between actual or expected sales and sales at the break-even point. If the margin of safety is large, it is a sign of safety is an indicator of the weak position of the business.

27. What is meant by a product's CM ratio? Briefly explain the different techniques or methods applied for CVP analysis.

Ans: Product mix: Product mix is the ration in which various products arc produced and sold. CVP analysis technique helps the management in taking decisions regarding changing the ratio of production mix which gives maximum contribution or in dropping unprofitable product line.

Product's CM Ratio: Product Contribution margin ratio is commonly expressed as a percentage of sales prices. It is one of the most important ratios for studying the profitability of operations of a business and establishes the relationship between contribution and sales. A higher ratio means a greater profitability and vice versa.

28. What do you mean by break-even chart and break-even point?

Ans: (i) Break-even chart: Break even chart is a graph that shows the relationships among sales, volume, cost and net profit or loss. **(ii) Break-even point:** Break-even point is that level of operation at which sales revenues for a period are equal to the costs assigned to that period. As a result there is no net profit or loss

6th chapter

29. What do you mean by budget? Mention some of the major benefits of budgeting.

Ans: A budget is a comprehensive and coordinated plan, expressed in financial terms, for the operations and resources of an enterprise for some specific period in the future — James

A budget is a numerical statement expressing the plans, policies and goals of the enterprise for a definite period in the future.- Pillial and Bagavathi.

benefits of budgeting : 01. Budgets communicate management's plans throughout the organization./ 02. It is a good guide to the management for making future plans./ 03. It aims at maximization of profit though cost control and proper utilization of resources./ 04. It is guide to the management in the field or research and development in future./ 05. An effective system of budgetary control results in coordinated of all persons involved./ 06. It facilitates an intelligent and planned forecast for future./ 07. It provides definite objectives for evaluating performance ay each level of responsibility.

30. Distinguish between forecasting and budgeting.

Ans: forecasting : (i) Forecast is the mainly concerned with probable events. (ii) Forecast is only a tentative estimate and can be revised. (iii) Forecast results in planning. (iv) Forecast is not used for evaluating the efficiency of performance.

budgeting (i) Budget is concerned with planned events. (ii) Budget remains unchanged for die budget period. (iii) The planning results in budgeting (iv) Budget is always used evaluating the efficiency of performance.

31. Explain the function of a budget committee.

Ans: Budget committee: budget committee is a group of key managers who are responsible for overall budgeting policy and for coordinating the preparation of the budget. This committee consists of the president, vice presidents, managers of various departments such as sales, production, purchasing, controlling. The budget committee approves the final budget.

function of a budget committee : 01. Maintaining overall budgeting policy;/ 02. Coordinating the preparation of the budget;/ 03. Determining the budget rate;/ 04. Crating new budget of the new year;/ 05. The budget committee approves the final budget.

32. The difference between cash budget and cash flow statement.

Ans: Cash budget : (i) Cash budget is a detailed plan showing how cash resources will be acquired and used over a specific time period. (ii) It shows how much cash is expected to come and how much cash is expected to go out. (iii) The cash budget is quite simple. (iv) Cash budget consists the firm must have cash on a current basis to pay its employees and suppliers and to meet its others cash needs.

Cash flow statement (i) Cash flow statement is a detailed report or document showing how cash resources will be acquired and used over a specific time period. (ii) An external Financial statement that describes changes in cash between two balance sheet dates. (iii) Cash flow statement is primary external statement. (iv) It includes the source of cash during the year and shows how it was used.

33. What are the essential of a sound budgeting system? Explain.

Ans: 01. The budgeting system should have full support of top management./ 02. There should be well-planned organizational set-up with responsibility./ 03. The accounting system should provide accurate and timely information./ 04. Staff should be strongly and properly motivated towards the system./ 05. It should meaning full participation of all concerned./ 06. Budget should be actually aim as a coordinating device rather than control device./ 07. Budget should be flexible to permit the adjustments.

34. What do you understand by master budget? Briefly describe its contents.

Ans: Master budget: Muster budget is a summary of company's plan that sets specific targets for sales, production, financial activities and that generally achieves in a cash budget, budgeted income statement and budgeted balance sheet.

Briefly describe its contents : 01. Sales budget;/ 02. Production budget;/ 03. Direct material budget;/ 04. Direct labor budget;/ 05. Factory over head budget;/ 06. Variable costs of production budget;/ 07. Operating expenses budget;/ 08. Cash receipt budgets;/ 09. Cash payment budget;/ 10. Cash budget;/ 11. Variable cost of goods of sold budget;/ 12. Budgeted income statement;/ 13. Budgeted balance sheet.

35. What is a flexible budget? How does flexible budget differ from fixed budget?

Ans: Flexible budget: Flexible budget is a dynamic budget. It is a budget which is designed to change in accordance with the level of activity. Actual output may differ from the budgeted output so it is necessary to modify the budget on the basis of changed output.

36. Short notes :

Ans: (i) Sales budget: Sales budget is an estimated sale for the budgeted period. The sales budget is constructed by multiplying budgeted unit sales by the selling price. 01. Analysis of previous year's sales./ 02. General trade conditions./ 03. Availability of raw materials./ 04. Availability of funds./ 05. Plant capacity./ 06. Seasonal fluctuations./ 07. Restrictions imposed by the government. / 08 Competition and customer's preference. / 09. Efficiency of advertising.

(ii) Production budgets: Production budget is the projection of units that must be produced to meet

anticipated sales. It is in two parts- one part contains the volume of production and the other part shows the cost of production. A production cost budget shows the budgeted costs for direct material, direct labor and manufacturing overhead.

(iii) Production cost budget: Production cost budget is a plan that shows the predicted cost for direct materials, direct labor and overhead costs to be incurred in manufacturing units in the production budget.

(iv) Cash budget : Cash budget is a detailed plan showing how cash resources will be acquired and used over a specific time period. So this budget is divided into two parts, one showing the estimated cash receipts on account of cash sales, credit collections and miscellaneous receipts and the other showing the estimated disbursement on account of cash purchases, account payable to creditors, wages payable to workers, indirect expenses payable, income tax payable, dividend payable etc.

(v) Master budget: Master budget is a summary of company's plan that sets specific targets for sales, production, financial activities and that generally achieves in a cash budget, budgeted income statement and budgeted balance sheet.

(vi) Flexible budget: Flexible budget is a dynamic budget. It is a budget which is designed to change in accordance with the level of activity.

7th Chapter

37. What do you mean by budgetary control.

Ans: Budgetary control is a system of controlling costs which includes the preparation of budgets, establishing responsibilities, comparing actual performance with the budgeted.

38. State the objective of budgetary control.

Ans: 01. To maintain more economical use of capital./ 02. To prevent waste and reduce expenses./ 03. To facilitate various departments to operate efficiently and economically./ 04. To create a good business practice by planning for future./ 05. To fix responsibilities on different departments or individual./ 06. To ensure the availability of working capital./ 07. To calculate deviation budgeted with actual and take proper action.

39. Distinguish between forecasting and budgeting.

Forecasting : (i) Forecast is the mainly concerned with probable events./ (ii) Forecast is only a tentative estimate and be revised. (iii) Forecast results in planning/ (iv) Forecast is not used for evaluating efficiency of performance.

Budgeting (i) Budget is concerned with planned events./ (ii) Budget remains unchanged for the budget period./ (iii) The planning results in budgeting/ (iv) Budget is always used evaluating the efficiency of performance.

40. Describe the benefits and limitation of budgetary control.

Ans: Benefits: 01. Budgets communicate management's plans throughout the organization./ 02. It is a good guide to the management for making future plans./ 03. It aims at maximization of profit through cost control and proper utilization of resources./ 04. It is guide to the management in the field or research and development in future./ 05. An effective system of budgetary control results in coordinated of all persons involved./ 04 It facilitates an intelligent and planned forecast for future./ 07 It provides definite objectives for evaluating performance at each level of responsibility. 08. It motivates personnel throughout the organization to meet planned objectives.

Limitation : 01. Budgeting is time-consuming process. During the preparation period, the business conditions may change and estimates may go wrong by that time./ 02. The successful operation of budgets depends on the efficiency of the executive personnel./ 03. Budgets are prepared with pre-determined targets. If the changes present condition of business, it is fail to achieve the target of the plan./ 04. If the responsible personnel executives are not co-operation, the budgetary control system will be collapses.

41. State the essential condition of budgetary control.

Ans: 01. The budgetary control system should have full support of top management./ 02. There should be well-planned organizational set-up with responsibility./ 03. The accounting system should provide accurate

and timely information./ 04. Staff should be strongly and properly motivated towards the system./ 05. It should mean full participation of all concerned./ 06. Budget should be actually aimed as a coordinating device rather than a control device./ 07. Budget should be flexible to permit the adjustments.

8th Chapter

42. Define The segment reporting.

Ans: The financial Accounting Standards Board (FASB) now requires that companies in the United States include segmented financial and other data in their annual reports and that the segmented reports prepared for external users must be the same methods and definitions that the companies use in internal segmented reports that are prepared to aid in making operating decisions.

43. Describe the cost center, profit centers, and investment center.

Ans: (i) Cost center: A responsibility center in which a manager is responsible for costs incurred by the segment. The manager of a cost center has control over costs, but not over revenue or investment funds. **(ii) Profit centers:** A responsibility center in which a manager is responsible for the amount of profit earned. **(iii) Investment center:** A responsibility center in which a manager is responsible for earning a rate or return on the segment investment in assets.

44. What do you mean by segment margin.

Ans: The difference between the revenue of a segment and the direct costs of the segment represents the amount of income that has been earned by the particular segment. A segment margin is a part of activity of an organization about which managers would like cost, revenue, or profit data.

45. What are the six steps in designing accounting based performance measure.

Ans: 01. Identify and define activities and activity cost pools. (i) Unit-level activities;/ (ii) Batch-level activities;/ (iii) Product-level activities;/ (iv) Customer-level activities;/ (v) Organization-sustaining activities.

02. Wherever possible, directly trace costs to activities and cost objectives./ **03.** Assign costs to activity cost pools./ **04.** Calculate activity rates./ **05.** Assign costs to cost objectives using the activity rates and activity measures./ **06.** Prepare management reports.

46. Short notes:

Ans: (i) Profitability analysis: Absolute profitability measures the impact on the organization's overall profits of adding or dropping a particular segment such as a product or customer - without making any other changes. Relative profitability is concerned with ranking products, customer, and other business segments to determine which should be emphasized.

(ii) Responsibility accounting: A system of accounting under which managers are given decision making authority and responsibility for activities occurring within specific areas of a company.

(iii) De-centralization: A form in which managers at the lower levels have more authority to make decisions regarding their particular operation,

(iv) RO1: RO1 stands for Return on Investment. Income (segment margin) as a percentage of investment; a measurement of management performance. A measure of income or profit divided by the investment required to obtain that income or profit,

(v) Residual income: The difference between actual incomes (segment margin) earned on an investment and the desired income on the investment, based on the minimum desired rate of return,

(vi) Rate of return: The rate of return is another capital budgeting technique that does not involve discounting cash flow. The simple rate of return is also known as the accounting rate of return or the unadjusted rate of return.

9th Chapter

47. What do you mean by relevant and irrelevant cost?

Ans: (i) Relevant cost: A cost that is pertinent to the decision being made. To be relevant, a cost must be a future expected cost that differs between alternatives.

(ii) Irrelevant cost: An avoidable cost is a cost that can be eliminated in whole or in part by choosing one alternative over another.

Unavoidable costs are irrelevant cost. Two broad categories of costs are never relevant in decision. These irrelevant costs are: **01. Sunk costs:** An unexpired previously incurred cost. Normally used when referring to previously purchased assets. **02.** Future costs that do not differ between the alternatives.

48. Describe the special sales order.

Ans: Special sales orders: Managers must often evaluate whether a special sales order should be accepted, and if the order is accepted, the price that should be charged. A special sales order is a one-time order that is not considered part of the company's normal ongoing business.

49. Describe the segment margin in product line.

Ans: Segment margin in product line: Decision relating to whether old product lines or other segments of a company should be dropped and new ones added are among the most difficult that a manager has to make.

To illustration of cost analysis: 01. The salaries expenses represent salaries paid to employees working directly on the product. All of the employees working in house wares would be discharged if product line is dropped./ 02. The advertising expenses represents product advertising specific to each product line and is avoidable if the line is dropped./ 03. The utilities expenses represent utilities costs for the entire company. The amount charged to each product line is an allocation based on space occupied and is not avoidable if the product line is dropped./ 04. The depreciation expenses represent depreciation on fixtures used for display of the various product lines. Although the fixtures are nearly new, they are custom-built and will have no resale value if the house wares line is dropped./ 05. The rent expense represents rent on the entire building housing the company; it is allocated to the product lines on the basis of sales dollars. The monthly rent of 20,000 tk. is fixed under a long-term lease agreement./ 06. The insurance expense represents insurance carried on inventories within each of the three product lines./ 07. The general administrative expense represents the costs of accounting, purchasing, and general management, which are allocated to the product lines on the basis of sales taka.

50. What are the difference between relevant cost and irrelevant cost?

Ans: Relevant cost : (i) A cost that is pertinent to the decision being made./ (ii) To be relevant, a cost must be a future expected cost that differs between alternatives/ (iii) Avoidable costs are relevant costs.

Irrelevant cost (i) A cost that is unrelated to the decision being made./ (ii) Future costs that do not differ between the alternatives./ (iii) Unavoidable costs are irrelevant cost.

51. Short notes.

Ans: (i) Product costs: For financial accounting purpose, products costs are that are involved in acquiring or making a product. In the case of manufactured goods, these costs consist of direct material, direct labor, and manufacturing overhead. Product costs are viewed as "attaching" to units of product as the goods are purchased or manufactured, and they remain attached as the goods go into inventory awaiting sale. So initially, product cost are assigned to an inventory as expenses (typically called cost of goods sold) and matched against sales revenue. Since product costs are initially assigned to inventories, they are also known as inventorial costs.

(ii) Irrelevance of future cost: In addition to past cost, some future costs may be irrelevant because they will be the same under all feasible alternatives. These, too, may be safely ignored for a particular decision. The salaries of many members of top management are examples of expected future costs that will be unaffected by the decision at hand.

(iii) When you are creating make or buy?: Suppose a company uses facilities on average, 80% of the time. However, because of seasonal changes in the demand for its products, the actual demand for the facilities varies from 60% in the off season to over 100% in peak season. During the off seasons, the company may decide to perform special projects for other manufacturer (on a subcontract). There is profit on these projects but not enough to justify expanding the capacity of the facilities.

(iv) Special sales orders: Managers must often evaluate whether a special sales order should be accepted, and if the order is accepted, the price that should be charged. A special sales order is a one-time order that is

not considered part of the company's normal ongoing business.