

Cost pools and cost objects



Topic 6: Management Accounting and Cost Case: Shelter Partnership a. My main learning outcomes from Topic 6 and the Case Study; 1) Firstly, I realize management accounting has much to offer. Somehow I can handle physics but not accounting. Now thanks to this course I can appreciate and make sense of it. The bit that really caught my attention was seeing how management accounting can be really useful for business planning, cost management, budgeting and performance measurement. It offers critical and more objective inputs for decision making.

On my part, I would say this is one of my most important learning outcomes as it changed my personal view and outlook of accounting. 2) I have learnt that a good costing system is needed to get a better grip on the “ actual” cost of my products and services. Gaining a better understanding of the Cost Pools (and the types of cost) and how these costs are allocated to the Cost Objects is a good starting point. 3) I realize that it is very important to identify and define the Cost Objects properly from the start. While I may like to define the Cost Objects narrowly, it should only be done to the extent it is economically viable. 4) I recognize that there are a number of ways to allocate indirect costs (from the Cost Pools) to the Cost Objects and these can cause distortion. It is therefore imperative to establish a meaningful and acceptable way of allocating such cost to better reflect the true cost. This leads to my next learning outcome. 5) Stephen Covey’s “ begin with the end in mind” rings true here. If I had wanted to measure and analyze the Cost Objects by products, services and countries (Multinational Company), both the Cost Objects and the way cost is allocated needs to be defined early.

In this case, a deeper engagement between my Marketing Department and the Finance Department is necessary to fine tune the costing system. 6) When looking at the cost numbers, it is imperative for me to consider and discern the context and assumptions used in arriving at the numbers since these are not “standardized”. b. Applying the learning outcomes to my own organization. 1) I work in a large IT company and my portfolio includes Marketing, Consulting and Strategic Account (Client) Management.

In the area of Account Management, the company had recently implemented a system to track the profitability of each Client. In the case of revenues, it is a relatively simple process. However, getting a truer picture of the cost of providing professional services to each of our clients is a major challenge. In a sense, our client account is a “Cost Object”. 2) In a typical project undertaken for our client, professional services are provided by dynamically formed teams made up of Project Managers, Business Consultants, Senior Project Leads, Business Analysts, Programmers and Testers.

Presently we are allocating cost to each of our clients according to the numbers of professional man-days consumed by the clients based on a “blended” man-day rate. The following is a simplified illustration of how cost is allocated. 3) We have room for significant improvements in the way we allocate cost. a. Labor cost which is a direct cost becomes a little complicated due to the project nature of the service. But since our systems captures the actual time-sheet for each employee according to projects, we should be able to eventually allocate labor cost directly to the Client, “Cost Objects” and give a truer reflection of cost. . Secondly, we should explore for more appropriate ways for allocating indirect cost such as travel & ticketing

administrations and office space which is presently added into the blended rate. Since administration for travel and ticketing only applies to overseas projects, In-Country projects should not be “burdened” with these costs. Similarly, office space is only applicable for projects running out of our own premises and should not be loaded to projects undertaken at specific clients’ premises. At any one time around 50% of our staff is based outside of our office.)We found the shortcomings in cost allocation affects our decisions on pricing, discounts, expense provision, use of resources (especially when contending for resources), budgeting and business planning. 5)We have some multi-nationals clients, and I am curious about the effect of establishing overlapping “Cost Objects” to present a group/enterprise level view in addition to the present individual client level view. In our case, we have local offices in a number of countries and resource sharing is quite extensive, however no cost transfer has been allocated to the individual client account.