

Free report on managerial accounting ip2

[Business](#), [Company](#)



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Question 1

- Differential Costs (Decision Making)

Differential Costs line up with decision models from economics and finance, operations research, cost of capital calculations, competitive analysis and prices and investment decisions. This type of cost information is solely dedicated to aid in decision making.

- Responsibility Cost (Planning, Performance & Control)

Responsibility cost is geared towards:

- Quantification of strategies, goals and forecasts in the form of budgets.

Here is where the development of pro forma financial statements takes place.

- Measure the extent to which organizational responsibility centers (sub-units) and managers achieved the set goals and targets. There are two

categories here:

- Informal control which is mainly social psychology.
- Full Costs (Product Costing)

This is fundamentally associating currency value for the resources forgone to obtain a particular service or product. It has two main functions or purposes:

- Internal Decision Making; is used to aid the internal decision making process by helping to determine the optimal product mix and product pricing.
- Financial Reporting; is used for the financial reporting obligations of any business entity to provide Cost Of Goods Sold (COGS) and in valuing inventory.

Question 2

Determination of the cost purpose is an essential prerequisite to the whole costing process without prior knowledge to the use and purpose of the resulting cost information, the scope of the whole costing process and the costs that are relevant to it would be difficult to determine.

The two major cost purposes are:

- Program Delivery Options: this mainly concentrates on the different alternatives and the relative impact these alternatives will have on the cost.
- Performance Measurement: this mainly concentrates on evaluating and measuring performance of a cost object.

Question 3

Cost information supports program delivery options by analyzing the cost implications of the different alternatives available on a particular cost object.

By providing a costs analysis that clearly states the difference in costs of the alternatives, the relevant authority, managers, will then have a clear picture of what the cost implications will have on the profitability of a particular cost object, enhancing decision making.

Cost information supports performance measurement by aiding the management of a company to clearly track how good or bad the results of a particular cost object are relative to prevailing market conditions and initial investments put into the cost object. This allows management to decide whether a particular cost object is still viable, and if not, then seek alternatives to remedy the situation.

Question 4

A cost object is any element or segment for which cost information is required, desired or essential. More specifically, it can be a service, product, division, activity department etc.

The management accountant determines the type, kind and classification of a cost object. This classification will help determine and track the cost behavior of a particular cost object which will in turn be used to determine its performance and how it is treated in financial reporting of the cost object.

Question 5

The derivation of the cost in any firm is hinged on the cost function of the firm. The cost function of the firm shows the cost element of the firm and this is obtained by understanding there are two costs; total costs and average costs, and identifying the two key elements of the cost function, i. e. fixed costs and variable costs.

Firstly, total costs represent the sum of all the costs associated with a particular cost object and average cost is the cost per unit of cost object produced, i. e. the cost of one unit of the cost object in question.

Secondly, the fixed costs associated with the cost object in question are the costs that do not change regardless of number of units produced and time.

The variable costs associated with the cost object in question are the costs that are determined and influenced by the number of units produced and time.

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