

SORTING THROUGH “THE CLUTTER” IN MANAGEMENT ACCOUNTING

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“THE CLUTTER”

- Traditional Simplified Volume-Based Costing
- Value-Stream Costing (Lean Accounting?)
- Activity-Based Costing/Management
- Grenzplankostenrechnung (GPK)
- Resource-Consumption Accounting
- Time-Based Activity-Based Costing
- Throughput Costing

THE IMPORTANCE OF MODELS

- Most phenomena are too complex to be completely understood.
- People must function in a world where those phenomena exist and have an effect their decisions and actions.
- To function effectively they create “models” of those phenomena.

THE IMPORTANCE OF MODELS

- Models represent an individual's "internal version" of the outside world that makes that world more understandable and easier to deal with.

THE IMPORTANCE OF MODELS

“It is our models of phenomena that determine our behavior, not the phenomena themselves.”

“Good decisions require good models and the caliber of our decisions reflects the quality and validity of our models.”

Dr. Alfred Oxenfeldt

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“CO-EXISTING” MANAGEMENT ACCOUNTING TOOLS

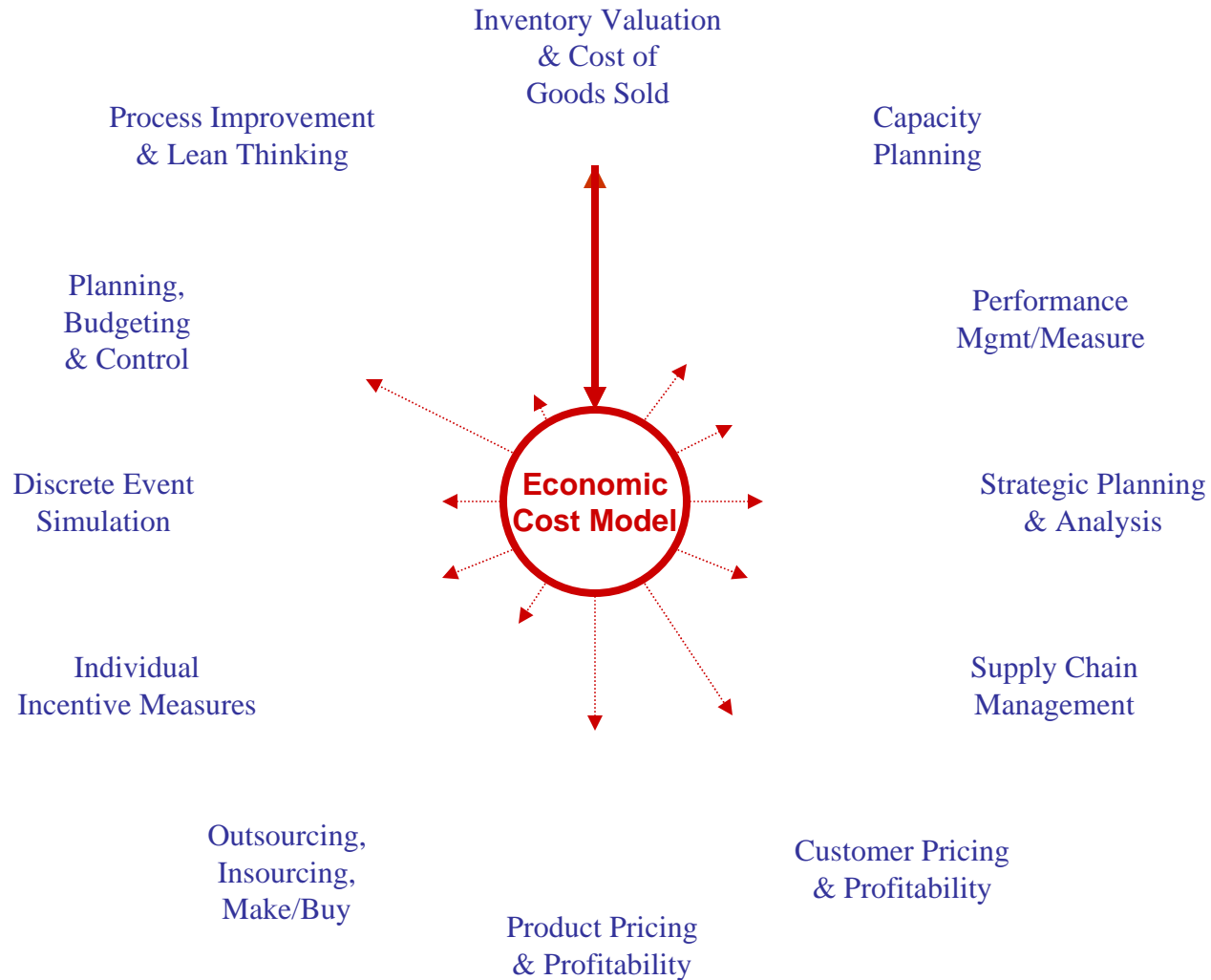
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SOME “CO-EXISTING” YARD TOOLS

- Power Lawnmower
- Rake
- Edger
- Weed Whacker
- Snow Thrower
- Snow Shovel
- Chain Saw
- Hoe
- Tree Trimmer
- Lopper
- Leaf Blower
- Spreader
- Hedge Trimmer
- Grass Clippers

SAMPLE OF YARD MODELS

- Acres of lawn, no fences, no flowers, no trees
- Large lawn, many trees, cement pathways, variety of flowers, located in Texas
- Large lawn, many trees, cement pathways, variety of flowers, located in Michigan's Upper Peninsula
- Small lawn, cement pathways, driveway, and patio, no trees, long hedge, variety of flowers
- Totally paved yard

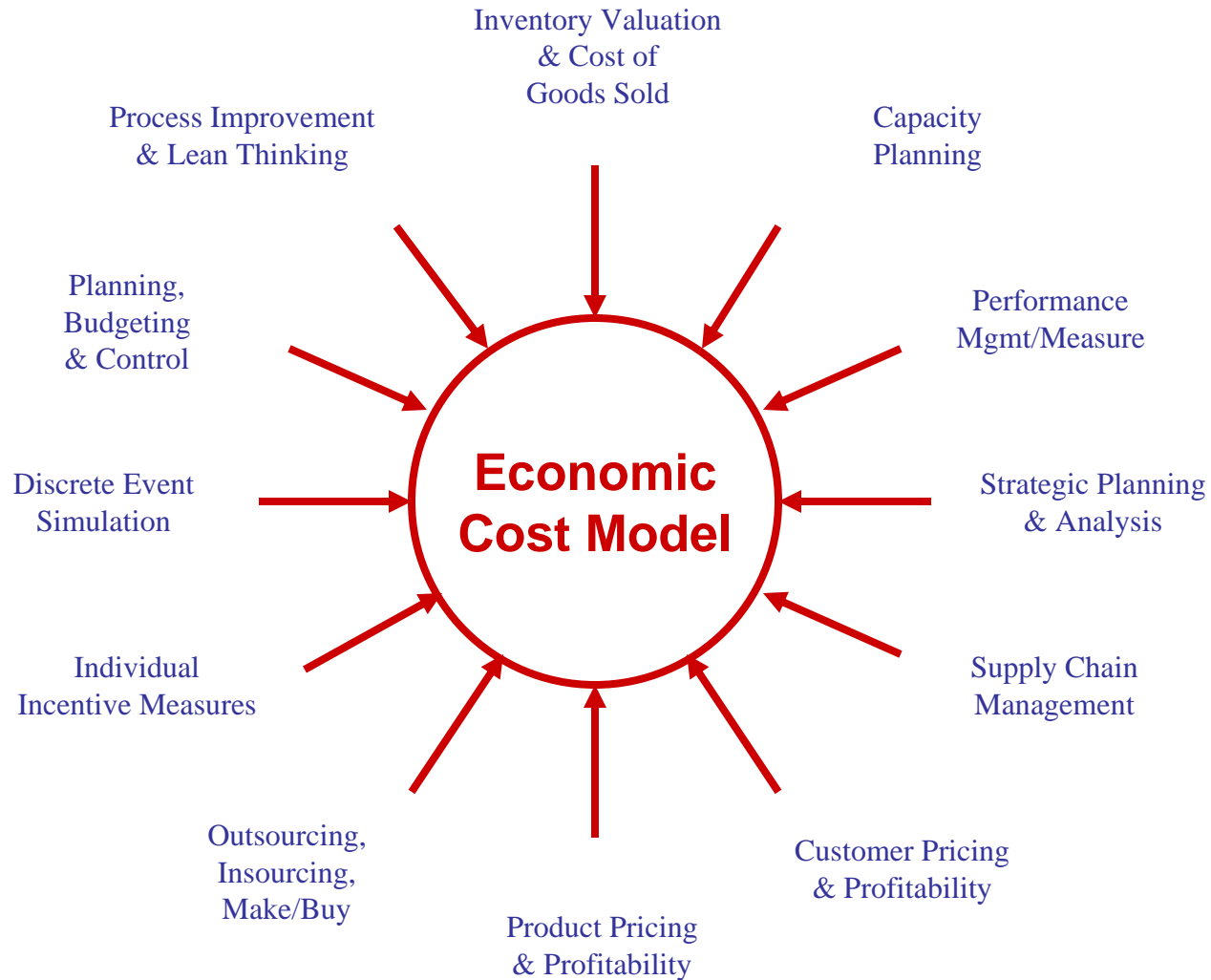


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PHILOSOPHICAL MISTAKE #1

Cost Accounting \neq Cost Information

The primary purpose of cost information is not to support the financial accounting system.

The primary purpose of cost information is to provide management with the accurate and relevant economic information it needs to *make economically sound decisions and take economically effective actions.*

THE DEADLY VIRUS OF GAAP

Financial Accounting Costs \neq Decision Costs

- Periodicity Problems
- Depreciation and Amortization
- Investments vs. Expenses
- Unmade Expenditures
- Non-Annual Cost Cycles
- Cost Recovery vs. Cost Precovery
- Volume & Mix
- Cost of Capital

ACTIVITY-BASED CONCEPTS ARE...

the “lens” through which management can view the company to develop a valid economic model of the organization

THE THREE KEY TYPES OF COST INFORMATION

- *Fully-absorbed costs* – calculable at various volumes and mixes of business
- *Incremental/total costs* – calculable under various business assumptions
- *Process costs* – the cost of performing the organization's primary business activities

ACTIVITY-BASED CONCEPTS

Activity-Based Concepts (ABC) are a “lens” for taking the complex operations of a business enterprise and developing a *cost model* that accurately reflects the *relationships between the company’s costs, activities, and products.*

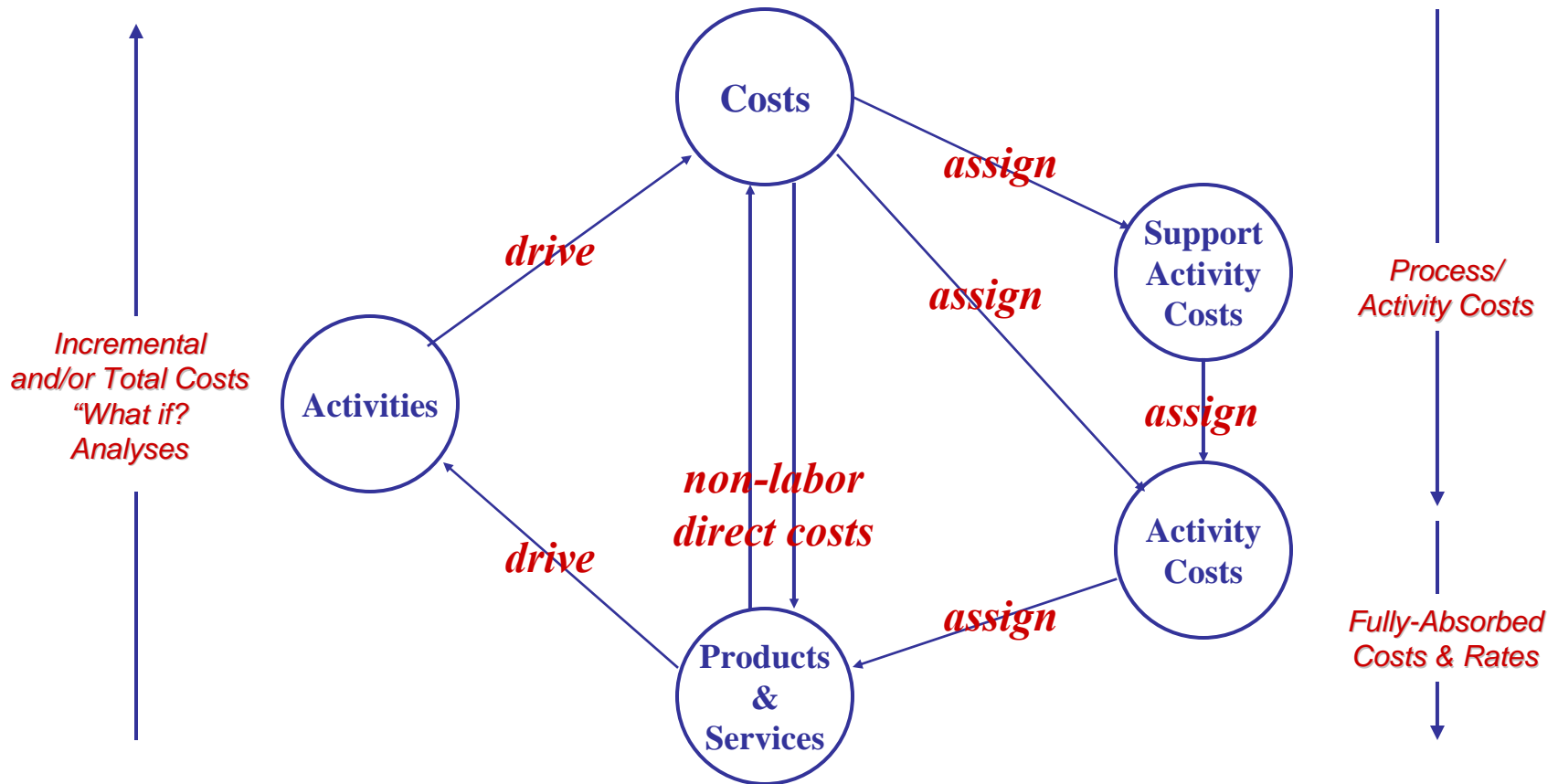
ACTIVITY-BASED CONCEPTS

The purpose of Activity-Based Concepts is
insight, not calculations.

ABC's BASIC PREMISE

- Products and services cause activities and those activities cause costs.
- Associate costs with the activities that make them necessary and then associate accumulated activity costs with the products or services that make them necessary.

BASIC “ACTIVITY-BASED” COST MODEL



CATEGORIES OF COSTS/ACTIVITIES

- Throughput or Direct Cost Support Activities
- Direct or Value-Adding Activities
- Event or Transaction Activities
- Market or Customer Support Activities
- Product or Product Line Support Activities
- General and Administrative Activities



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