

Cost Accounting (Accounting 36-313)
Final Examination Review Sheet
Spring, 2003

IMPORTANT!

This review sheet may refer to some items that are not tested on the examination.
The examination may test some concepts not included on this review sheet.

Role of the management accountant

- Implementation of strategy
- How the accountant fits in to the organizational structure
- Relationship between financial and managerial accounting
- Professional ethics

Cost terms and behavior

- Inventoriable costs (DM, DL, OH) and period costs (everything else)
- Variable costs and fixed costs
- Flow of costs through the financial accounts
- CVP analysis
 - Break-even point
 - Equation method: $P_x - V_x - F - NI = 0$
 - Contribution margin method
 - Sensitivity analysis

Job costing

- Selection of a "cost object"
- Flow of costs through the accounts
- Application of indirect manufacturing costs (overhead)
- Disposition of underapplied or overapplied overhead
- Normal costing

Budgeting

Responsibility accounting

- Cost centers -- look at cost
- Profit centers -- look at contribution
- Investment centers -- look at ROI
- Also, revenue centers

Developing the master budget

- Begin with the sales budget (usually)
- Work through the intermediate budgets, cash budget
- Develop budgeted financial statements

Variance analysis

- Developing a flexible budget
- Sales variances
- Cost variances
 - DM -- price variance, efficiency variance
(usually compute DMPV when purchased)
 - DL -- rate variance, quantity variance
 - OH (variable) -- rate variance, quantity variance
 - OH (fixed) -- spending variance, volume variance
(volume variance measures capacity utilization)

Use of standard costs

Inventory costing

Absorption costing

- GAAP
- DM, DL, VOH, FOH are inventoriable costs
- Typically uses a traditional income statement, disclosing a gross margin

Variable costing

- Not GAAP
- Sometimes called "direct costing"
- DM, DL, VOH are inventoriable costs; FOH is a period cost
- Typically uses a CM format income statement, disclosing a contribution margin

Relevant costs

Consider costs that:

- Are in the future and
- Will change among alternatives

Specific types of decisions

- Insource or outsource
- Sell or process further
- Special orders
- Drop or keep a product line

Cost allocation

Allocating costs of support departments to operating departments

One support department -- use either single or dual rates

Multiple support departments -- several methods

Direct allocation

Step-down allocation

Reciprocal allocation

Stand-alone v. incremental methods of allocating costs (and revenues)

Allocation of "joint" costs -- rationale; several methods

SVSO

Physical measures

NRV

Constant gross margin percentage NRV

Process costing

Concept of the equivalent unit -- very important

Difference between FIFO method, average cost method

Objective is to partition total manufacturing cost among:

Ending W-I-P inventory

Goods completed and transferred to the next stage

Spoiled goods

Cost of "normal" spoilage is part of the cost of "good" goods completed

Cost of "abnormal" spoilage is expensed right away

Accounting for scrap

Capital budgeting

Objective -- used in making nonroutine decisions

Various methods

Net present value

Internal rate of return

Payback

Accrual accounting rate of return

Various other topics

Activity Based Costing (ABC)

Economic Order Quantity (EOQ) analysis

Economic Value Added (EVA)

Pricing considerations