MERDEKA BELAJAR

UAI Universitas Al Azhar Indonesia

Lectures Note

COST ACCOUNTING

Chapter 2: Cost Accounting in a Contemporary Environment

Sari Anggraini

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Fakultas Ekonomi dan Bisnis
Universitas Al-Azhar Indonesia
Jl. Sisingamangaraja Kebayoran Baru - Jakarta Selatan

Direktorat Pembelajaran dan Kemahasiswaan, Kementerian Pendidikan Kebudayaan, Riset dan Teknologi

Chapter II

Cost Accounting in a Contemporary Environment

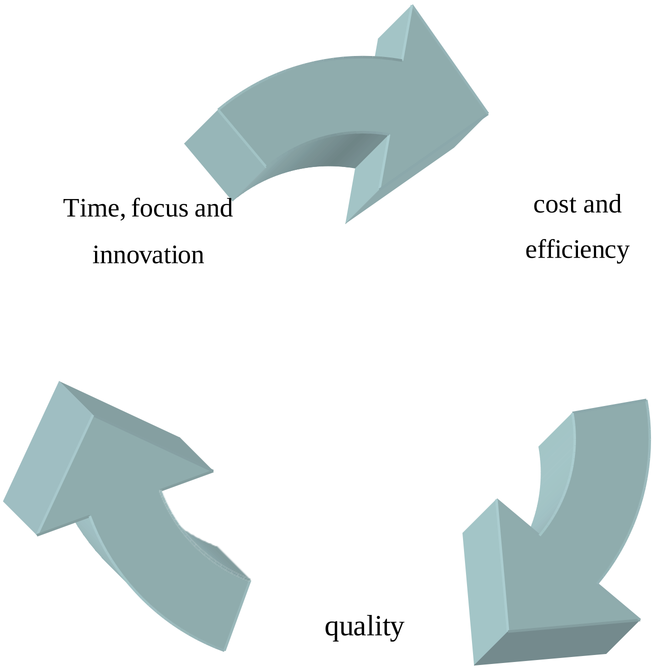
After studying this chapter, you should be able to:

1. ***Define of three classes of manufacturing cost***
2. ***Explain the differences between a merchandising and manufacturing income statement***
3. ***Explain the guidelines of management accountant***

This c give you chapter will give you framework for learning cost accounting in manufacturing company

Key Success Factors

Customers want company to use the value chain and supply chain to deliver improving levels of performance regarding several (or even all) of the following[4]:



Key Management Accounting Guidelines

Three guidelines help management accountants provide the most value to their companies in planning and control activities: Employee a cost-benefit approach, give full recognition to behavioral considerations as well as technical considerations, and use different costs for different purposes[5].

Cost-Benefit Approach

Management accountants continually face resource-allocation decisions, such as whether to purchase a new software package or hire a new employee. The cost benefit approach should be used in making these decisions: Resource should be spent if they are expected to better attain company goals in relation to the expected cost of those resources.

Consider the installation of a company's first budgeting system. Previously, the company used historical recordkeeping and little formal planning. A major benefit of installing a budgeting is that it compels managers to plan ahead, compare actual to budgeted information, and take corrective action.

Behavioral and Technical Considerations

The cost-benefit approach is the criterion that assists managers in deciding whether, say, to install a proposed budgeting system instead of continuing to use an existing historical system. Consider the human (the behavioral) side why budgeting is used. Budgets induce a different set of decisions within an organization because of better collaboration, planning, and motivation.

Both accountants and managers should always remember that management is not confined exclusively to technical matters. Management is primarily a human activity that should focus in how to help individuals do their jobs better – for example, by helping them to understand the activities that add value those that do not. Moreover, when workers underperform, behavioral considerations suggest that managers should personally discuss with workers ways to improve performance and not just send them a report highlighting their underperformance.

Different Cost for Different Purposes

This theme is the management accountant's version of the "one size does not fit all" notion. A cost concept used neither for the external-reporting purpose of account internal accounting may nor be an appropriate concept for internal, routine reporting to managers.

Typical Ethical Challenges

Ethical issue can confront management accountants in many ways. Here are two examples:

a. **Case A**: A management accountant, knowing that reporting a loss for a software division will result in yet another "rightsizing initiative" (a gentler term than "layoffs"), has concerns about the commercial potential of a software product for which development costs are currently being capitalized as an asset rather than being shown as an expense for internal reporting purposes. The division manager argues that showing development costs as an asset is justified because the new product will generate profits. However, he presents little evidence to support his argument. The last two products from this division have been unsuccessful. The management accountant has many friends in the division and wants to avoid a personal confrontation with the division manager.

b. **Case B**: A packaging supplier, bidding for a new contract, offers the management accountant of the purchasing company an all-expenses-paid weekend to the Supper Bowl. The supplier does not mention the new contract when giving the invitation. The accountant is not the personal friend of the supplier. He knows cost issues are critical in approving the new contract and is concerned that the supplier will ask for details about bids by competing packaging companies.

In each case the management accountant is faced with an ethical dilemma. Case A involves competence, objectivity, and integrity. The management accountant should request that the division manager provide credible evidence that the new product is commercially viable. If the manager does not provide such evidence, expensing development costs in the current period is appropriate. Case B involves confidentiality and integrity. Ethical issues are not always clear-cut. The supplier in Case B may have no intention of raising issues associated with the bid. However, the appearance of a conflict of interest in Case B is sufficient for many companies to prohibit employees from accepting "favors" from supplier.

Decision Points

1. Cost accounting measures, analyzes, and report financial and nonfinancial information relating to the cost of a acquiring or using resources in an organization. Cost accounting provides information to both management accounting and financial accounting.
2. Management accountants contribute to strategic decision by providing information about the source of competitive advantage. Companies add value through R&D; design of product; production; marketing; distribution; and customer service. Managers in all of these value-chain business functions are customers of management accounting information.
3. In most organizations, management accountants perform multiple roles to implement strategies: problem solving (comparative analyses for decision making and planning), score keeping (accumulating data and reporting reliable results), and attention directing (helping managers properly focus on problems and opportunities).
4. Three guidelines that help management accountants increase their value to managers are (a) employ a cost-benefit approach, (b) recognize behavioral as well as technical considerations, and (c) identify different costs for different purposes.
5. Management accountants have ethical responsibilities that are related to competence, confidentiality, integrity, and objectivity.

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