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Strategic Cost Management Prepared by Douglas Cloud Pepperdine UniversityObjectives 1.Explain what strategic cost management is and how it can be used to help a firm create a competitive advantage. 2.Discuss a value-chain analysis and the strategic role of activity-based customer and supplier costing. 3.Tell what life-cycle cost management is and how it can be used to maximize profits over a products life cycle. After studying this chapter, you should be able to: ContinuedObjectives 4.Identify the basic features of JIT purchasing and manufacturing. 5.Describe the effect JIT has on cost traceability and product costing.Strategic Cost Management:Basic Concepts Strategic decision making is choosing among alternative strategies with the goal of selecting a strategy, or strategies, that provides a company with reasonable assurance of long-term growth and survival. The key to achieving this goal is to gain a competitive advantage. Strategic cost management is the use of cost data to develop and identify superior strategies that will produce a sustainable competitive advantage.Strategic Cost Management:Basic Concepts Competitive advantage is the process of creating better customer value for the same or lower cost than that of competitors or creating equivalent value for lower cost than that of competitors. Customer value is the difference between what a customer receives (customer realization) and what the customer gives up (customer sacrifice). The total product is the complete range of tangible and intangible benefits that a customer receives from a purchased product.General Strategies There are three general strategies that have been identified: cost leadership product differentiation focusingGeneral Strategies Acost leadershipstrategyhappens when the same or better value is provided to customers at a lowercost than a companys competitors. Example:A company might redesign a product so that fewer parts are needed, lowering production costs and the costs of maintaining the product after purchase.General Strategies A differentiation strategy strives to increase customer value by increasing what the customer receives (customer realization). Example:A retailer of computers might offer on-site repair service, a feature not offered by other rivals in the local market.General Strategies Afocusing strategyhappens when a firm selects or emphasizes a market or customer segment in which to compete. Example:Paging Network, Inc., a paging services provider, has targeted particular kinds of customers and is in the process of weeding out the nontargeted customers.Industrial Value Chain The industrial value chain is the linked set of value-creating activities from basic raw materials to the disposal of the finished product by end-use customers. Fundamental to a value-chain framework is the recognition that there exist complex linkages and interrelationships among activities both within and external to the firm.Internal and External Linkages There are two types of linkages that must be analyzed and understood: internal and external linkages. Internal linkages are relationships among activities that are performed within a firms portion of the value chain. External linkagesdescribe the relationship of a firms value-chain activities that are performed with its suppliersand customers. There are two types: supplier linkages and customer linkages.Oil Exploration Oil Production Oil Distribution Oil Refining Gas Distribution Service Stations End-Use Customer Product Disposal Firm B Firm C Firm A Value Chain for the Petroleum IndustryOrganizational Activities and Cost Drivers Organizational activities are of two types: structuralandexecutional. Structural activitiesare activities that determine the underlying economic structure of the organization. Executional activities are activities that define the processes and capabilities of an organization and thus are directly related to the ability of an organization to execute successfully.Organizational Activities and Cost Drivers Structural Activities Structural Cost Drivers Building plantsNumber of plants, scale, degree of centralization Management structuringManagement style and philosophy Grouping employeesNumber and type of work units ComplexityNumber of product lines, number of unique processes, number of unique parts Vertically integratingScope, buying power, selling power Selecting and using processTypes of process technologies, technologies experienceOrganizational Activities and Cost Drivers Educational Activities Educational Cost Drivers Using employeesDegree of involvement Providing qualityQuality management approach Providing plant layoutPlant layout efficiency Designing and producing productsProduct configuration Providing capacityCapacity utilizationOperational Activities Operational activitiesare day-to-day activities performed as a result of the structure and processes selected by the organization. Examples:Receiving and inspecting incoming parts, moving materials, shipping products, testing new products, servicing products, and setting up equipment.Organizational and Operational Activity Relationships Organizational Activity (Selecting and using process technologies) Operational Driver (Number of moves) Structural Cost Driver (JIT: Type of process technology) Operational Activity (Moving material)Internal Value Chain Design Service Develop Distribute Product MarketInternal Linkages: An Example Design engineers have been told that the number of parts is a significant cost driver and that reducing the number of parts will reduce the demand for various activities downstream in the value chain. They plan to reduce the price by per-unit savings. Currently 10,000 units are produced. The data of the new design and its effects on demand are given in slide 13-20. Activities Activity Driver Capacity Demand Demand Material usageNumber of parts200,000200,00080,000 Assembling partsDirect labor hours10,00010,0005,000 Purchasing partsNumber of orders15,00012,5006,500 Warranty repairNumber of defective products1,000800500 Internal Linkages: An ExampleInternal Linkages: An Example Additionally, the following activity cost data are provided: Material usage: $3 per part used; no fixed activity cost. Assembly: $12 per direct labor hour; no fixed activity cost Purchasing: Three salaried clerks, each earning a $30,000 annual salary; each clerk is capable of processing 5,000 purchase orders annually. Variable activity costs: $0.50 per purchase order processed for forms, postage, etc. Warranty: Two repair agents, each paid a salary of $28,000 per year; each repair agent is capable of repairing 500 units per year. Variable activity costs: $20 per product repaired.Internal Linkages: An Example Cost Reduction from Exploiting Internal Linkages Material usage: (200,000 80,000)$3$360,000 Labor usage: (10,000 5,000)$1260,000 Purchasing: [$30,000 + $.50(12,500 6,500)]33,000 Warranty repair: [($28,000 + $20(800 500)] 34,000 Total$487,000 Units10,000 Unit savings$48.70Step Cost Behavior: Purchasing Activity Cost $90,000 60,000 30,000 5 6.5 10 12.5 15 20 Number of Purchase Orders (in thousands)Activity-Based Supplier Costing Reworking rate = $200,000/1,000 800 + 190 + 5 + 5 Reworking rate = $200 per failed component Expediting rate = $50,000/50 30 + 20 Expediting rate = $1,000 per late deliveryActivity-Based Customer Costing Large Ten Customer Smaller Customers Units purchased 500,000 500,000 Orders placed 2200 Manufacturing cost$3,000,000 $3,000,000 Order-filling cost allocated* $303,000 $303,000 Order cost per unit$0.606$0.606 *Order-filling capacity is purchased in blocks of 45 (225 capacity), each block costing $40,400; variable order-filling activity costs are $2,000 per order; thus, the cost is [(5 x $40,400) + ($2,000 x 202)]Product Life Cycle Viewpoints There are three basic views of the product life cycle: Marketing viewpoint Production viewpoint Consumable life viewpointMarketing Viewpoint Units of sales Introduction Growth Maturity DeclineProduction Viewpoint Cost Commitment Curve Life Cycle Cost % 100 75 50 25 Research Planning Design Testing Production Logistics A Life Cycle Costing Example Suppose that engineers are considering two new product designs for one of its power tools. Both designs reduce direct materials and direct labor content over the current model. The anticipated effects of the two designs on manufacturing, logistical, and postpurchase activities costs are listed on slide 13-30.A Life Cycle Costing Example Cost Behavior Functional-based system: Variable conversion activity rate: $40 per direct labor hour Material usage rate: $8 per part ABC system: Labor usage $10 per direct labor hour Material usage: $8 per part Machining: $28 per machine hour Purchasing activity: $60 per purchase order Setup activity: $1,000 per setup hour Warranty activity: $200 per returned unit Customer repair cost: $10 per hourA Life Cycle Costing Example Traditional costing (overhead allocated by direct labor hours) Design ADesign B Direct materials$ 800,000$ 480,000 Conversion costb 2,000,000 3,200,000 Total manufacturing cost$2,800,000$ 3,680,000 Units produced 10,000 10,000 Unit cost $ 280$ 368 a$8 x 100,000 parts; $8 x 60,000 parts b$40 x 50,000 direct labor hours; $40 x 80,000 direct labor hoursA Life Cycle Costing Example ABC Costing (Overhead allocated by direct labor hours) Design ADesign BClassification Direct materials $ 800,000 $ 480,000Manufacturing Direct labora500,000800,000Manufacturing Machiningb 700,000 560,000Manufacturing Purchasingc18,00012,000Upstream Setupsd 200,000100,000Manufacturing Warrantye 80,000 15,000Downstream Total product costs$2,298,000$1,967,000 Units productd 10,000 10,000 Unit cost$ 230$ 197 Postpurchase costs$ 80,000$ 15,000 Role of Target Costing A company is considering the production of a new trencher. Current product specifications and the targeted market share call for a sales price of $250,000. The required profit is $50,000 per unit. The target cost is computed as follows: Target cost=$250,000 $50,000 =$200,000Target-Costing Model Target Profit Target Cost Product and Process Design Target cost met? NO YES Produce Product Market Share Objective Target Price Product Functionality Product A A A Abrasive Grinders Welding Equipment Lathes Product B B B Department. 1 Department 2 Department 3 Traditional Manufacturing Layout Each process passes through departments that specialize in one process. Finished Product A Finished Product BGrinder Grinder Welding Welding Lathe Lathe Product A Product B Finished Product A Finished Product B JIT Manufacturing Layout Cell A Cell BTraditional Inventory Systems Push-through system Significant inventories Large supplier base Short-term supplier contracts Departmental structure Specialized labor Centralized services Low employee involvement Supervisory management style Acceptable quality level Driver tracing dominatesJIT Inventory Systems Pull-through system Insignificant inventories Small supplier base Long-term supplier contracts Cellular structure Multiskilled labor Decentralized services High employee involvement Facilitating management style Total quality control Direct tracing dominatesTraditional Journal Entry Materials Inventory160,000 Accounts Payable 160,000 Back-Flush Journal Entry Raw Materials and In-Process Inv.160,000 Accounts Payable 160,000 Backfushing Compared with Traditional Cost Flow Accounting Transaction: Raw materials were purchased on account for $160,000.Traditional Journal Entry Work-in-Process Inventory160,000 Materials Inventory 160,000 Back-Flush Journal Entry No entry Backfushing Compared with Traditional Cost Flow Accounting Transaction: All materials received were issued into production.Traditional Journal Entry Work-in-Process Inventory25,000 Wages Payable 25,000 Back-Flush Journal Entry Combined with overhead; See next entry. Backfushing Compared with Traditional Cost Flow Accounting Transaction: Actual direct labor cost, $25,000.Traditional Journal Entry Overhead Control225,000 Accounts Payable 225,000 Back-Flush Journal Entry Conversion Cost Control250,000 Wages Payable 25,000 Accounts Payable 225,000 Backfushing Compared with Traditional Cost Flow Accounting Transaction: Actual overhead costs, $225,000.Traditional Journal Entry Work-in-Process Inventory235,000 Overhead Control 235,000 Back-Flush Journal Entry No entry. Backfushing Compared with Traditional Cost Flow Accounting Transaction: Conversion costs applied, $235,000.Traditional Journal Entry Finished Goods Inventory395,000 Work-in-Process Inventory 395,000 Back-Flush Journal Entry Finished Goods Inventory395,000 Raw Materials and in-Process Inv. 160,000 Conversion Cost Control 235,000 Backfushing Compared with Traditional Cost Flow Accounting Transaction: All work was completed for the month.Traditional Journal Entry Cost of Goods Sold395,000 Finished Goods Inventory 395,000 Back-Flush Journal Entry Cost of Goods Sold395,000 Finished Goods Inventory 395,000 Backfushing Compared with Traditional Cost Flow Accounting Transaction: All completed work was sold.Traditional Journal Entry Cost of Goods Sold15,000 Overhead Control 15,000 Back-Flush Journal Entry Cost of Goods Sold15,000 Conversion Cost Control 15,000 Backfushing Compared with Traditional Cost Flow Accounting Transaction: Variance is recognized.End of Chapter1. - By Sundarrajan M [email_address] Based on Shank and Govindarajans Strategic Cost Management: The New Tool for Competitive Advantage 2. Traditionally viewed as a process of assessing the financial impact of alternative managerial decisions Establishes budget and actual cost of operations, processes, departments or product and the analysis of variances, profitability or social use of funds Important tool used is variance analysis to show the variation b/w actual cost and standard costs volume variation Material cost variation Labor cost variation Limitations felt in using variance analysis Why costs were different from what was planned? Lack of integration with organizational goal 3. Cost analysis in terms of products, customers and functions Strongly internal focus Basic objective in identifying the cost is Score keeping (recording and compliance of the profession) Attention directing Problem solving Cost is assumed as a function of output volume (variable cost, fixed cost and mixed cost) Standard cost system with normal allowance for scrap, waste, rework; zero defect standard is not practical. Overhead variance analysis; maximize production volume (not quality) to absorb overhead. Variance analysis on raw material price; procedure from multiple suppliers to avoid unfavorable price variance; low price/low- quality raw materials No emphasis on nonfinancial performance measure 4. It is cost analysis in a broader context, where the strategic elements become more conscious, explicit, and formal Cost data is used to develop superior strategies in route to gaining sustainable competitive advantage SCM gives a clear understanding of the firms cost structure in search of sustainable competitive advantage SCM is the managerial use of cost information explicitly directed at one or more of the four stages (strategy formulation, communicating the strategy, implementing and controlling) of strategic management Overall recognition of the cost relationships among the activities in the value chain, and the process of managing those cost relationships to a firm's advantage 5. My team has created a very innovative solution, but were still looking for a problem to go with it. Problems identified: We have solutions, but we have a problem in fitting the correct solution Lack of integration with the system and the synchronization with central theme of the Organization / Project 6. Cost analysis in terms of overall value chain of which the firm is a part Strongly external focus The design of cost management systems changes dramatically depending on the basic strategic positioning of the firm Cost leadership or Product differentiation Cost is a function of strategic choice about the structure of how to compete and managerial skill in executing the strategic choices Structural cost drivers and Executional cost drivers 7. Strategic cost management is a blend of Value chain analysis (how we organize our thinking about cost management?) Strategic positioning analysis (what role does cost management play in the firm?) Cost driver analysis 8. Organize our thinking about cost management A Systematic approach to examining the development of competitive advantage The chain consists of a series of activities that create and build value They culminate in the total value delivered by an organization Helps to determine which type of competitive advantage to pursue, and how to pursue it Value is referred to as the price that the customer is willing to pay for a certain offering 9. External focus perspective, linked with activities from raw material suppliers to ultimate end user Multiple cost driver concept Structural drivers (scale, scope, experience, technology, complexity) Executional drivers (participative management, TQM) Cost containment is a function of the cost drivers regulating each value activity Exploiting linkages with suppliers, customers and process within the firm Insights for strategic decision by identifying the cost drivers at the individual activity level Develop drivers by controlling those drivers better than competitors or by reconfiguration of value chain Quantify and asses stake holders power and exploit the linkages 11. Depends on the firms idea, how to compete? Cost leadership Product differentiation Cost leadership Mature market Commodity business Target cost Product differentiation Market driven Rapidly growing market Fast changing business Effective control system should be implemented to monitor the cost 12. Primary Strategic Emphasis Product Differentiation Cost Leadership Role of product cost in assessing performance Not very important Very important Importance of flexible budgeting for cost control Moderate to Low High to very high Perceived importance of meeting budgets Moderate to Low High to very high Importance of marketing cost analysis Critical to success Not done on formal basis Importance of product cost as an input to pricing decision Low High Importance of competitor cost analysis Low High 13. Third key to strategic cost management Output cost is seen to capture very little of the richness of the cost behavior Cost drivers in SCM can be classified as Structural drivers Executional drivers Structural cost drives the product cost of the organization Scale: how big an investment to make in manufacturing, R&D, and in marketing resources? Scope: Degree if vertical integration Experience: how many times in the past the firm has already done what it is doing again? Technology: what process technologies are used at each step of the firms value chain? Complexity: how wise a line or products of services to offer to customers? (usage of ABC) 14. Executional cost determines the firms cost position to execute the strategy successfully These cost drivers are scaled with the performance Basic executional drivers Work force involvement (participation) workforce commitment to continual improvement TQM, Capacity utilization, Plan layout efficiency and Product configuration For strategic analysis, volume is usually not the most useful way to explain cost behavior In a strategic sense, it is more useful to explain cost position in terms of the structural choices about executional skills that shape the firms competitive position Not all the strategic drivers are equally important all the time, but some of them are very important in every case For each driver there is a particular cost analysis frame work that is critical to understanding the positioning of a firm 15. Tools Nature Value chain analysis Add value to customers reducing costs, and understanding relation between business organization and booth customers Activity based Costing (ABC) To provide accuracy in allocating indirect costs. Competitive Advantage Analysis Defining strategy that an organization could adopt to excel over rivals Target costing Cost that an organization is willing to incur according to competitive price that could be used to achieve desired profit Total quality management (TQM) Adopt necessary polices and procedures to met customers expectations Just-in-time (JIT) A comprehensive system to buy materials or produce commodities when needed in appropriate time SWOT analysis Systematic procedure to identify critical success factors of an organization Benchmarking Process performed to determine critical success factor and study ideal procedures of other organization in order to improve operations and dominate market Balanced scorecard Accounting report of critical success factors about the organization. It is divided into four major dimensions: financial performance, customers satisfaction, internal operation, and innovation and Growth 16. Tools Nature Theory of Constraints A tool to improve rate of transferring material into finished goods Continuous improvement (Kaizen) Conducting continuous improvements in quality and other critical success factors 19. A firm can create a cost advantage by 2 ways Reducing the cost of individual value chain activities Reconfiguring the value chain 20. Some of the tools used to find cost in value analysis are Lifecycle costing Supply chain management Return on Asset Discounted cash flow analysis 21. Products costs over its entire lifetime when deciding whether to introduce a new product Not all products will follow this pattern Some products will fail early and have a truncated life cycle 5 Stages in product life cycle Product development and planning Introduction phase Growth phase Product maturity phase Product decline and abandonment phase 22. Send your feedbacks to: [email_address] 1. CHAPTER-1 Conceptual framework for strategic managementReported by : Rajmohan Gupta Abhishek Neogi Kinchit Rai Milan lakhani Jenish Malaviya Meghal ChauhanTo : Virag Shah (Lecturer ESM)2. CONTENTSConcept, Meaning, Definition - Strategy - Policy - Tactics - Strategic Management - Program - Procedure - Business - Stakeholders - SBU - ETOP - OCP - SAPStrategic management process & its implication3. Strategic intent - Organizational Vision,mission,goals&objectives - Their formulation and role in strategic management4. Concept, Meaning, Definition 5. STRATEGY : Strategy is the determination of the long-term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals.Strategy isnt themissionits theplan that allowsthe company toaccomplish themissionStrategy is managements game plan for strengthening the organizations position, pleasing customers, and achieving performance targets.7. POLICY : A guiding principle, typically established by senior management, which is adopted by an organization or project to influence and determine decisions.Policies are the means by which annual objectives will be achieved. Policies include guidelines, rules, and procedures established to support efforts to achievestated objectives.Policy means having rules and procedures in place so people know what to do in certain situations. Business can have policy in place so that action and progress can be made.Diff: A strategy is a plan to do things a certain way to achieve a desired outcome. A policy is a rule designed to ensure consistency in governance and to avoid undesirable outcomes. .8. Types of policyCorporate policyCorporate policy describes a companies overall direction in terms of its general attitude towards growth and the management of its various businesses and product lines. It typical fit within the three main categories of stability, growth and retrenchment.Business policyBusiness policy usually occurs at the business unit or product level and it emphasizes improvement of the competitive position of a corporation products or services in the specific industry or market segment served by that business unit. Business strategies may fit within the two overall categories of competitive or cooperative strategies.Functional policyFunctional policy is the approach taken by a functional area to achieve corporate and business unit objectives and strategies by maximizing resources productivity. It is concerned with developing and nurturing a distinctive competence to provide a company or business unit with a competitive advantage.10. Tactics : Tactic means the approach towards workflow or the method of performing things. In terms of strategic management we have a solid definition given by Wheelen and Hunger A tactic is a specific operating plan detailing how a strategy is to be implemented in terms of when and where it is to be put into action. Tactics are narrower in scope and shorter in their time ascompared to strategies.There are two types of tactics as given by Wheelen and Hunger . Timing tactic Market Location tactic11. STRATEGIC MANAGEMENT : Strategic management is defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable the organization to achieve its objectives." Generally, strategic management is not only related to a single specialization but covers cross-functional or overall organization.12. Strategic management is a comprehensive area that covers almost all the functional areas of the organization. It is an umbrella concept of management that comprises all such functional areas as marketing, finance & account, human resource, and production & operation into a top level management discipline. Therefore, strategic management has an importance in the organizational success and failure than any specific functional areas.(Cont .Strategic management deals with organizational level and top level issues whereas functional or operational level management deals with the specific areas of the business.13. . Top-level managers such as Chairman, Managing Director, and corporate level planners involve more in strategic management process.14. Strategic management relates to setting vision, mission, objectives, and strategies that can be the guideline to design functional strategies in other functional areas15. Therefore, it is top-level management that paves the way for other functional or operational management in an organizationDefinition:Glueck Strategic Management can be defined as a set of decisions, actions resulting in formulations & implementation of strategies designed to achieve the objectives of enterprise.17. Reduction in Cost of Capital18. Increase in Trading on Equity19. Increase in Profitability20. Reduction in fixed and flexible expenses21. Motivation to group activity22. Increase in the efficiency of the employees23. Prevention of overlapping of work24. Alertness in employees25. Prevention of organizational gap26. Acceptance of Organizational ChangesDis-advantages of Strategic Management Time Consuming27. Ignorance of other Managerial Functions28. Unsatisfaction in employees29. Depression due to failure in target31. Demand for more reward and facilities33. Non-practical planning 34. Changes in technical factors35. It gives only a guideline36. Changes in the attitudes 37. Adverse attitude of trade unions38. Political Pressure Program : Plan of action aimed at accomplishing a clear objective, with details on what work is to be done, by whom, when, and what means or resources will be used.Wheelen and Hunger defines a program in the following words A program is a statement of activities or steps needed to accomplish a single use plan. It may involve restructuring of organization, changing the companys internal culture or beginning a new researcheffort.Procedure :It is a specified series of actions or operations which have to be executed in the same manner in order to always obtain the same result under the same circumstances (for example, emergency procedures). Less precisely speaking, this word can indicate a sequence of tasks,steps,decision, calculations and processes, that when undertaken in the sequence laid down produces the described result, product or outcome.Business: It may be understood as the organize efforts of enterprise to supply consumer its with goods & services for a profit.Business includes all activities concerned with production, trade, banking, insurance, finance agency, advertising, packaging & other related activities. Stakeholders :Person, group, or organization that has direct or indirect stake in an organization because it can affect or be affected by the organization's actions, objectives, and policies. Key stakeholders in a business organization include creditors, customers, directors, employees, government (and its agencies), owners (shareholders), suppliers, unions, and the community from which the business draws its resources. 39. STRATEGIC BUSINESS UNIT (SBU)StrategicBusinessUnitorSBUis understood as abusinessunit within the overallcorporate identitywhich is distinguishable from otherbusinessbecause it serves a defined external market where management can conductstrategicplanning in relation to products and markets. The unique smallbusinessunit benefits that a firm aggressively promotes in a consistent manner. When companies become really large, they are best thought of as being composed of a number of businesses (or SBUs).The idea was developed by Mckinsey & Co. (Consulting Firm) & General Electric in 1971.General Electronics classified its businesses into 49 strategic business units (SBUs).40. (Cont An SBU has three characteristics:41. It is a single business or collection of related businesses that can be planned separately from the rest of the company.42. It has its own set of competitors.43. It has a manager who is responsible for strategic planning and profit performance and who controls most of the factors affecting profit.44. The purpose of identifying the companys strategic business units is to develop separate strategic and assign appropriate funding.45. And helps the development of business level strategies since these may need to vary from one SBU to another.(ContAdvantage of SBU: Minimizes problems associated with sharing resources across functional areas, Quick response to environmental change, Increased focus on products and markets, Facilitates development if general managers, and Increases operational and strategic control, allowing corporate level executives to deal with strategic issues.Disadvantages of SBU: Increased expenditure invited through doubling of operations, personnel, and investments, Difficulty in maintaining a uniform corporate image, Dysfunctional antagonism amongst divisions might detract from in general corporate performance, Over emphasis on short term performance, and Distortion of information.46. (ContIdentity Have a distinct mission47. Have its own competitors48. Have its own executive group with profit responsibility49. In 1990 AT&T had 19 business units 50. General Electric & SBUs are electrical motors, Major appliances, Jet Engines Lighting Equipments Commercial Credit and Broadcasting.ENVIRONMENT THREAT AND OPPORTUNITY PROFILE(ETOP)It is a process of dividing the environment into different sectors and then analyzing the impact of each sector on the organizationAdvantage of ETOP It provides a clear of which sector and sub sectors have favorable impact on the organization. It helps interpret the result of environment analysis.51. The organization can assess its competitive position.53. SWOT analysis (Strategic weakness, opportunities and threats.)STRATEGIC ADVANTAGE PROFILE(SAP)Every firm has strategic advantages and disadvantages. For example, large firms have financial strength but they tend to move slowly, compared to smaller firms, and often cannot react to changes quickly. No firm is equally strong in all its functions. In other words, every firm has strengths as well as weaknesses.Strategists must be aware of the strategic advantages or strengths of the firm to be able to choose the best opportunity for the firm. On the other hand they must regularly analyse their strategic disadvantages or weaknesses in order to face environmental threats effectivelyExamples:The Strategist should look to see if the firm is stronger in these factors than its competitors. When a firm is strong in the market, it has a strategic advantage in launching new products or services and increasing market share of present products and services.55. strategic management processStages of Strategic ManagementStrategy formulation includes developing a vision and mission, identifying an organizations external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue.b. Strategy implementation requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed; strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and linking employee compensation to organizationalperformance.c. Strategy evaluation is the final stage in strategic management. Managers desperately need to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information.56. (ContStrategic Management ProcessScan External Environment National, GlobalIdentify Strategic Factors Opportunities, ThreatsImplement Strategy via Changes in: Leadership culture, Structure, HR, Information & control systemsFormulate Strategy Corporate, Business, FunctionalEvaluate Current Mission, Goals, StrategiesDefine new Mission Goals, Grand StrategySWOTScan Internal Environment Core Competence, Synergy, Value CreationIdentify Strategic Factors Strengths, Weaknesses2357. Strategic Intent : Organizational vision & Mission A vision statement is sometimes called a picture of your company in the future. The vision statement answers the question, Where do we want to go?A clear vision provides the foundation for developing a comprehensive mission statement.A mission statement is a formal, short, written statement of the purpose of a company or organization. The mission statement should guide the actions of the organization, spell out its overall goal, provide a sense of direction, and guide decision-making. It provides "the framework or context within which the company's strategies are formulated .Vision is like destination mission the path58. TOYOTA Vision-Toyota aims to achieve long-term, stable growth economy, the local communities it serves, and its stakeholders. Mission-Toyota seeks to create a more prosperous society through automotive manufacturing.IBM VisionSolutions for a small planet MissionAt IBM, we strive to lead in the invention, development and manufacture of the industry's most advanced information technologies, including computer systems, software, storage systems and microelectronics. We translate these advanced technologies into value for our customers through our professional solutions, services and consulting businesses worldwide. 59. Goals : It is where the business wants to go in the future, its aim. It is a statement of purpose, e.g. we want to grow the business into Europe.Objectives: Objectives give the business a clearly defined target. Plans can then be made to achieve these targets. This can motivate the employees. It also enables the business to measure the progress towards to its stated aims.Diff : Goals are long-term aims that you want to accomplish. Objectives are concrete attainments that can be achieved by following a certain number of steps. Goals and objectives are often used interchangeably, but the main difference comes in their level of concreteness. Objectives are very concrete, whereas goals are less structuredCost ManagementACCOUNTING AND CONTROL HANSEN & MOWENBasic Cost Management Concepts 2 CHAPTERProcesses Outputs Users A Systems Framework 1 OBJECTIVE Operational Model for an Accounting Information System Collecting Classifying Summarizing Analyzing Managing Special Reports Financial Statements Budgets Performance Reports Personal Communication Economic Events InputsA Systems Framework 1 OBJECTIVE Financial Accounting Information System Inputs: well-specified economic events Processes: rules and conventions established by the SEC and FASB Outputs: financial statements for external users Cost Management Information System Inputs and processes: set by management; not bound by externally imposed criteria Outputs: reports for internal usersA Systems Framework 1 OBJECTIVE The cost management information system has three broad objectives that provide information for-- 1)Costing out services, products, and other objects of interest to management 2)Planning and control 3)Decision makingAn Integrated Cost Management System A Systems Framework 1 OBJECTIVE Design and Development System Production System Cost Management System Customer Servicing System Marketing and Distribution SystemFinancial Accounting Information System Cost Management Information System Cost Accounting Information System Operational Control System A Systems Framework 1 OBJECTIVE The Subsystems of the Accounting Information System Accounting Information System Assigns costs to products, services or objects Provides performance feedbackCost Assignment: Direct Tracing, Driver Tracing and Allocation 2 OBJECTIVE A cost object is any item, such as products, customers, departments, projects, activities, and so on, for which costs are measured and assigned. Example: A bicycle is a cost object when you are determining the cost to produce a bicycle. An activity is a basic unit of work performed within an organization. Example: Setting up equipment, moving materials, maintaining equipment, designing products, etc.Cost Assignment: Direct Tracing, Driver Tracing and Allocation 2 OBJECTIVE Traceability means that costs can be assigned easily and accurately, using a causal relationship. Methods of tracing: Direct tracing: relies on physical observance of causal relationships to assign costs to cost objects. Driver tracing: relies on drivers as causal factors to assign costs to cost objects.Cost Assignment: Direct Tracing, Driver Tracing and Allocation 2 OBJECTIVE Cost of Resources Resource Drivers Direct Tracing Driver Tracing Allocation Convenience Assumed Linkage Physical Observation Activity Drivers Cost Objects Cost Assignment MethodsCost Assignment: Direct Tracing, Driver Tracing and Allocation 2 OBJECTIVE Cost of Resources Resource Drivers Direct Tracing Driver Tracing Allocation Convenience Assumed Linkage Physical Observation Activity Drivers Cost Objects Cost Assignment MethodsProduct and Service Costs 3 OBJECTIVE Research and Development Production Production Marketing Marketing Customer Service Customer Service Examples of Product Cost Definitions Value-Chain Product Costs Operating Product Costs Traditional Product Costs Production Pricing Decisions Product Mix Decisions Strategic Profitability Analysis Strategic Design Decisions Tactical Profitability Analysis External Financial ReportingProduct and Service Costs 3 OBJECTIVE Direct materials are those materials that are directly traceable to the goods or services being produced. Example: The cost of wood in furniture. Direct labor is the labor that is directly traceable to the goods or services being produced. Example: Wages of assembly-line workers. Overhead are all other manufacturing costs. Example: Plant depreciation, utilities, property taxes, indirect materials, indirect labor, etc. Manufacturing Costs(Production Costs)Product and Service Costs 3 OBJECTIVE Manufacturing costs are assigned to products and carried in inventories until the products are sold.Product and Service Costs 3 OBJECTIVE Marketing (selling) costsare the costs necessary to market, distribute, and service a product or service. Example:Advertising, storage costs, and freight out. Administrative costsare the costs associated with research, development, and general administration of the organization that cannot reasonably be assigned to either marketing or production. Example:Legal fees, salary of the chief executive officer. Nonmanufacturing Costs(Nonproduction Costs)Product and Service Costs 3 OBJECTIVE For external financial reporting, marketing and administrative costs are not inventoried. They are are expensed in the period incurred and referred to as period costs.Product and Service Costs 3 OBJECTIVE Direct Materials Marketing Expense Order-Getting Costs Order-Filling Costs Direct Labor Prime Cost Conversion Cost Overhead Administrative Expense Production and Nonproduction Costs Production or Manufacturing Costs Nonproduction or Operating CostsExternal Financial Statements 4 OBJECTIVE From the Cost of Goods Sold ScheduleExternal Financial Statements 4 OBJECTIVE continuedExternal Financial Statements 4 OBJECTIVE Work in process consists of all partially completed units found in production at a given point in time.External Financial Statements 4 OBJECTIVE From the Statement of Cost of Goods ManufacturedFunctional-Based and Activity-Based Cost Management Systems 5 OBJECTIVE Performance Analysis Activities Products and Customers Activity-Based Management Model Cost View Resources Process View Driver Analysis Why? What? How well?Functional-Based and Activity-Based Cost Management Systems 5 OBJECTIVE Functional-Based 1.Unit-based drivers 2.Allocation-intensive 3.Narrow and rigid product costing 4.Focus on managing costs 5.Sparse activity information 6.Maximization of individual unit performance 7.Uses financial measures of performanceFunctional-Based and Activity-Based Cost Management Systems 5 OBJECTIVE Activity-Based 1.Unit- and nonunit-based drivers 2.Tracing intensive 3.Broad, flexible product costing 4.Focus on managing activities 5.Detailed activity information 6.Systemwide performance maximization 7.Uses both financial and nonfinancial measures of performanceFunctional-Based and Activity-Based Cost Management Systems 5 OBJECTIVE Trade-Off Between Measurement and Error Costs Cost Total Cost Measurement Cost Error Cost Low Accuracy Optimal Level High AccuracyFunctional-Based and Activity-Based Cost Management Systems 5 OBJECTIVE New Optimum Shifting Costs Cost Old Measurement Cost New Measurement Cost New Error Cost Old Error Cost Old Optimum Low Accuracy HighEnd of Chapter 20 ratings0% found this document useful (0 votes)179 viewsThis document outlines the key concepts and components of strategic cost management. It defines strategic cost management and traditional cost management, explains the objectives and framewoSaveSave Overview of Strategic Cost Management For Later0%0% found this document useful, undefinedStrategic cost management Chapter 11Chapter 11 objectives Explain what strategic cost management is and how it can be used to help a firm create a competitive advantage Discuss value-chain analysis and the strategic role of activity-based customer and supplier costing Tell what life-cycle cost management is and how it can be used to maximize profits over a products life cycleChapter 11 objectives Identify the basic features of JIT purchasing and manufacturing Describe the effect JIT has on cost traceability and product costingSTRATEGIC COST MANAGEMENT:BASIC CONCEPTS Strategic decision making: choosing among alternative strategies with the goal of selecting a strategy, or strategies, that provides a company with reasonable assurance of long-term growth and survival Strategic cost management: use of cost data to develop and identify superior strategies that will produce a sustainable competitive advantage LO-1STRATEGIC COST MANAGEMENT:BASIC CONCEPTS Strategic Positioning: The Key to Creating and Sustaining a Competitive Advantage Competitive advantage: creating better customer value for the same or lower cost than offered by competitors Customer value: difference between customer realization and customer sacrifice Total product: complete range of tangible and intangible benefits that a customer receives from a purchased product LO-1STRATEGIC COST MANAGEMENT:BASIC CONCEPTS Three strategies for increasing customer value to achieve a competitive advantage Cost leadership Product differentiation Focusing LO-1STRATEGIC COST MANAGEMENT:BASIC CONCEPTS Cost leadership: provides the same or better value to customers at a lower cost than offered by competitors Product differentiation: strives to increase customer value by increasing what the customer receives Focusing: emphasizes a market or customer segment in which to compete LO-1STRATEGIC COST MANAGEMENT:BASIC CONCEPTS Strategic Positioning Process of selecting the optimal mix of the three general strategic approaches LO-1STRATEGIC COST MANAGEMENT:BASIC CONCEPTS Value-Chain Framework, Linkages, and Activities Industrial value chain: linked set of value-creating activities from basic raw materials to the disposal of the finished product by end-use customers Fundamental to a value-chain framework is the recognition of linkages and interrelationships among activities LO-1STRATEGIC COST MANAGEMENT:BASIC CONCEPTS Value-Chain Framework, Linkages, and Activities Two types of linkages Internal linkages: relationships among activities that are performed within a firms portion of the value chain External linkages: relationship of a firms value-chain activities that are performed with its suppliers and customers LO-1Exhibit 11.1Value Chain for the Petroleum Industry LO-1STRATEGIC COST MANAGEMENT:BASIC CONCEPTS Organizational Activities and Cost Drivers Structural activities: determine the underlying economic structure of the organization Executional activities: define the processes and capabilities of an organization LO-1Exhibit 11.2Organizational Activities and Drivers LO-1STRATEGIC COST MANAGEMENT:BASIC CONCEPTS Operational Activities and Drivers Operational activities: day-to-day activities performed as a result of the structure and processes selected by the organization Operational cost drivers: factors that drive the cost of operational activities LO-1Exhibit 11.3Operational Activities and Drivers LO-1Exhibit 11.4Organizational and Operational Activity Relationships LO-1Value-Chain Analysis Identifying and exploiting internal and external linkages to strengthen a firms strategic position LO-2Value-Chain Analysis Exploiting Internal Linkages Relationships between activities are assessed and used to reduce costs and increase value Activities before and after production must be identified and their linkages identified and exploited LO-2Exhibit 11.5Internal value chain LO-2Exhibit 11.6Step-Cost Behavior: Purchasing Activity LO-2Value-Chain Analysis Exploiting Supplier Linkages Value chain system also includes value-chain activities that are performed by suppliers and buyers Exploiting external linkages means managing these linkages so that both the company and the external parties receive an increase in benefit Activity-based assignments to suppliers and customers provide the accurate cost information needed LO-2LIFE-CYCLE COST MANAGEMENT Product Life-Cycle Viewpoints Product life cycle: time a product existsfrom conception to abandonment Revenue-producing life: time a product generates revenue for a company Consumable life: length of time that a product serves the needs of a customer LO-3LIFE-CYCLE COST MANAGEMENT Marketing Viewpoint Describes the general sales pattern of a product as it passes through distinct life-cycle stages Introduction stage: preproduction and startup activities, where the focus is on obtaining a foothold in the market Growth stage: period of time when sales increase more quickly Maturity stage: period of time when sales increase more slowly Decline stage: product loses market acceptance and sales begin to decrease LO-3Exhibit 11.7General Pattern of Product Life Cycle: Marketing Viewpoint LO-3LIFE-CYCLE COST MANAGEMENT Production Viewpoint Defines stages of the life cycle by changes in the type of activities performed: research and development activities, production activities, and logistical activities Emphasizes life-cycle costs Costs associated with the product for its

basis Importance of product cost as an input to pricing decision Low High Importance of competitor cost analysis 13 Cost driver strategy Third key to strategic cost managementOutput cost is seen to capture very little of the richness of the cost behavior Cost drivers in SCM can be classified as Structural drivers Executional drivers Structural cost drives the product cost of the organization Scale: how big an investment to make in manufacturing, R&D, and in marketing resources? Scope: Degree if vertical integration Experience: how many times in the past the firm has already done what it is doing again? Technology: what process technologies are used at each step of the firms value chain? Complexity: how wise a line or products of services to offer to customers? (usage of ABC) 14 Cost driver strategy (continues)Executional cost determines the firms cost position to execute the strategy successfully These cost drivers are scaled with the performance Basic executional drivers Work force involvement (participation) workforce commitment to continual improvement TQM, Capacity utilization, Plan layout efficiency and Product configuration For strategic analysis, volume is usually not the most useful way to explain cost behavior In a strategic sense, it is more useful to explain cost position in terms of the structural choices about executional skills that shape the firms competitive position Not all the strategic drivers are equally important all the time, but some of them are very important in every case For each driver there is a particular cost analysis frame work that is critical to understanding the positioning of a firm 15 Tools in SCM Tools Nature Value chain analysisAdd value to customers reducing costs, and understanding relation between business organization and booth customers Activity based Costing (ABC) To provide accuracy in allocating indirect costs. Competitive Advantage Analysis Defining strategy that an organization could adopt to excel over rivals Target costing Cost that an organization is willing to incur according to competitive price that could be used to achieve desired profit Total quality management (TQM) Adopt necessary polices and procedures to met customers expectations Just-in-time (JIT) A comprehensive system to buy materials or produce commodities when needed in appropriate time SWOT analysis Systematic procedure to identify critical success factors of an organization Benchmarking Process performed to determine critical success factor and study ideal procedures of other organization in order to improve operations and dominate market Balanced scorecard Accounting report of critical success factors about the organization. It is divided into four major dimensions: financial performance, customers satisfaction, internal operation, and innovation and Growth 16 Tools in SCM Tools Nature Theory of ConstraintsA tool to improve rate of transferring material into finished goods Continuous improvement (Kaizen) Conducting continuous improvements in quality and other critical success factors 17 SCM Framework 18 SCM Framework (continues) 19 Tools used for Value chain analysisCost leadership Reducing cost of individual value chain activities Reconfiguring the value chain A firm can create a cost advantage by 2 ways Reducing the cost of individual value chain activities Reconfiguring the value chain 20 Tools used for Value chain analysisDiscounted Cash Flow Return on Assets Life Cycle Costing Supply Chain Management Some of the tools used to find cost in value analysis are Lifecycle costing Supply chain management Return on Asset Discounted cash flow analysis 21 Life cycle costing Product development and planningProducts costs over its entire lifetime when deciding whether to introduce a new product Not all products will follow this pattern Some products will fail early and have a truncated life cycle 5 Stages in product life cycle Product development and planning Introduction phase Growth phase Product maturity phase Product decline and abandonment phase Decline and abandonment costs Maturity phase Product margin is low due to high price competition Growth phase Flexible and capacity related cost Implementation phase Promotional cost Product development and planning R&D cost, product testing cost Activity Based CostingActivity Based CostingVikas GuptaThe document discusses Activity Based Costing (ABC), explaining its necessity in today's complex business environments and how it improves cost allocation compared to traditional costing systems. It outlines ABC's methodology, which involves identifying activities that drive costs and allocating those costs to products based on usage, thereby enhancing accuracy in product costing. Additionally, it highlights the benefits and limitations of ABC, emphasizing its role in facilitating better pricing decisions while acknowledging the challenges of implementation.Risk and return measurementRisk and return measurementneelakshi81This document discusses the concepts of risk and return in investments. It defines risk as the uncertainty of expected returns, which can be caused by factors both related and unrelated to the investment. Systematic risk refers to uncertainty from broader market factors that affect all investments, while unsystematic risk is specific to a particular investment. Standard deviation and beta are introduced as quantitative measures of risk. Standard deviation measures how much returns vary from the average, while beta measures the volatility of a security compared to the overall market. The security market line equation is presented to demonstrate how beta is used to determine the required rate of return based on the risk-free rate and market risk premium.Strategic Cost ManagementStrategic Cost ManagementSundarrajan MungunthanThe document discusses strategic cost management (SCM) as an important tool for gaining competitive advantage. SCM analyzes costs in the broader context of a firm's overall value chain. It helps firms understand their cost structures to develop superior strategies. SCM uses tools like value chain analysis, activity-based costing, and analysis of cost drivers to examine how firms can configure activities to reduce costs or pursue different competitive strategies like cost leadership or differentiation.Chapter 01 introduction OF Cost AccountingChapter 01 introduction OF Cost AccountingayanthimadhumaliThis document is an introduction to cost accounting, emphasizing its importance in providing detailed cost information for management decision-making and control. It differentiates between cost accounting, cost accountancy, and financial accounting while outlining objectives such as determining product costs and facilitating planning. Furthermore, it highlights the role of a cost accountant in analyzing costs and developing budgeting strategies.ABC costing ABC costing Dr. Sushil BansodeActivity Based Costing (ABC) is a costing method that assigns overhead costs to products and services based on their use of activities. It arose due to limitations in traditional cost accounting methods. ABC assigns costs to activities first and then to products based on their use of each activity. This provides more accurate product costs compared to traditional methods that use blanket overhead rates. ABC involves identifying activities, assigning costs to activities, determining cost drivers for each activity, calculating activity costs rates, and assigning activity costs to products. It helps eliminate non-value added activities and supports better decision making. However, implementing an ABC system can be expensive and complex.Joint product and by product costingJoint product and by product costingMuhammad UsmanThis chapter describes methods for allocating joint costs between joint products. Joint products are two or more products produced from the same raw materials, like petrol and diesel from crude oil. By-products have lower value. Methods for allocating joint costs include sale value at split-off point, reverse cost method, net realizable value method, physical unit method, and contribution margin method. The net realizable value method is often most suitable.Transfer pricingTransfer pricingReshma GaikwadThis document discusses transfer pricing, which refers to the price at which divisions within a company transact with each other. It provides definitions of transfer pricing and outlines some key issues like how transfer prices impact revenue and influence whether managers prefer customers or suppliers that are internal or external to the company. The document then describes several methods that can be used to determine transfer prices, such as using market rates, negotiated prices, or cost-plus models. It provides an example of calculating an optimal transfer price between wood and paper divisions of a company. The summary concludes by noting how transfer prices can be manipulated for tax purposes in multinational companies.Methods and techniques of CostingMethods and techniques of CostingAshwin ShowiThe document outlines various methods and techniques of costing, defining key terms such as cost, costing, and cost accounting. It categorizes costing methods into specific order costing (including job, contract, and batch costing) and continuous operation costing (including process, single/output, operating, and multiple costing) and discusses historical, standard, marginal, direct, and absorption costing techniques. These methods are essential for both manufacturing and service organizations to ascertain and control costs effectively.Experience curveExperience curve63bikramThe document discusses the concept of an experience curve, which shows that the real production cost of a product declines by 20-30% for every doubling of cumulative production quantity. It notes that experience curves and learning curves are sometimes used interchangeably but have different meanings, with experience curves reflecting all costs at a macro level and learning curves specifically relating to labor hours and costs. The document also outlines some strategic, internal, and external uses of experience curves, such as determining pricing, scheduling, and estimating costs.Divisional performance measuresDivisional performance measuresSangeethaS114The document outlines a framework for divisional performance measurement to aid managerial decisions, emphasizing the establishment of appropriate organizational structures and performance measures. Key financial measures discussed include return on investment (ROI), residual income (RI), and economic value added (EVA), alongside non-financial metrics such as the balanced scorecard. Additionally, the document highlights the importance of aligning divisional accountability with company objectives while acknowledging the advantages and disadvantages of implementing performance measures.Transfer PricingTransfer PricingDilshan PrabodaThe document discusses the concept of transfer pricing, which is the price at which company divisions trade resources. It outlines various methods of transfer pricing, such as cost-based, market-based, and negotiated pricing, along with their advantages and disadvantages. The objectives of transfer pricing include minimizing tax liability, maintaining divisional autonomy, and enhancing competitive positioning.Methods of accelerating cash inflow PPTMethods of accelerating cash inflow PPTChinchu Malu(i) Concentration banking, lock-box systems, and pre-authorized payment systems are three methods to accelerate cash inflows. (ii) Concentration banking involves establishing local collection centers and bank accounts to speed up deposits. Lock-box systems use post office boxes for customers to mail payments directly to local banks for faster deposit. (iii) Pre-authorized payment systems allow payees to directly withdraw funds from payers' bank accounts according to a pre-arranged agreement, improving cash flow and control for organizations while providing convenience for customers.International financial managementInternational financial managementVisakhapatnamThe document provides an overview of international financial management. It discusses key concepts such as maximizing shareholder wealth, acquiring funds and making investment decisions. It also covers the nature and scope of international finance, including the roles of treasurers and controllers. Additionally, it outlines some of the major risks and theories related to international trade and business methods like licensing and exporting.Target costing Prepared By Melwin MathewTarget costing Prepared By Melwin MathewMelwin MathewTarget costing is a cost management tool used to reduce the overall cost of a product over its lifecycle. It was developed by Toyota in 1965 in response to rising costs and fewer opportunities for cost reductions late in development. The target costing process involves determining a target price based on market research, then working backwards to establish a target cost per unit by determining required profit levels. The goal is to motivate cross-functional teams to innovatively design products that meet cost targets and ensure planned profit levels.Standard costingStandard costingSwarnima TiwariThe document discusses standard costing, which involves setting standards for costs and revenues for controlling costs through variance analysis. It describes establishing standards for different cost elements like direct materials, direct labor, and overheads. Variances between actual and standard costs are analyzed to identify causes. Variance analysis helps reduce costs, measure efficiency, and control prices. The document outlines the standard costing process and advantages like effective cost control and developing cost consciousness.INTERNATIONAL FINANCIAL MANAGEMENTINTERNATIONAL FINANCIAL MANAGEMENTKartik ParasharInternational financial management involves managing finances across borders to maximize shareholder wealth. It emerged as countries liberalized and opened their economies. Managing international finances differs from domestic finances in areas like foreign exchange risk, political risk, market imperfections, and enhanced opportunities. Companies can raise capital abroad through licensing, franchising, subsidiaries, strategic alliances, and exports. Proper international financial management helps organizations operate efficiently in global markets.PESTEL analysisPESTEL analysisWisnu DewobrotoPESTEL analysis is a framework that categorizes environmental influences as political, economic, social, technological, environmental and legal factors (PESTEL) to identify how these external elements influence industries and companies. It breaks down the general environment into six specific segments represented by the letters in PESTEL. Executives use PESTEL analysis to organize factors and understand how they shape business operations and decision-making.Portfolio revision and evaluationPortfolio revision and evaluationaarthi ramakrishnanPortfolio revision involves altering the mix of securities in an investment portfolio to maximize returns or minimize risk. It can be constrained by factors such as transaction costs, taxes, statutory obligations, and the complexity of the revision process. Strategies for portfolio revision may be active, which involve frequent adjustments, or passive, requiring only minor adjustments, with performance evaluation being essential to measure effectiveness and improve investment decisions.Economic forecasting TechniquesEconomic forecasting TechniquesEsmatullah MohammadyThe document presents an overview of economic forecasting, including its definition, techniques, and implications for stock prices. Key forecasting techniques discussed include economic indicators, diffusion indices, econometric models, and surveys, each serving to predict economic trends and conditions. The document emphasizes the importance of understanding the macroeconomic environment and industry-specific factors affecting corporate profits and investor attitudes.Economic environment ppt Economic environment ppt Karan KukrejaThe economic environment refers to all economic factors that influence business operations. It determines the inputs businesses need and the markets to sell finished goods. Key elements include gross national income, GDP, inflation, unemployment, poverty levels, and the type of economic system - whether it is a market, command, or mixed economy. Managers must assess the economic environment to make investment and strategic decisions that account for local conditions and predict future performance.Techniques of strategic evaluation and controlTechniques of strategic evaluation and controlNidhinaThottuvayalilThe document discusses strategic management techniques, categorizing them into strategic momentum control for stable environments and strategic leap control for turbulent conditions. It outlines various evaluation techniques used for strategic control, including responsibility centers, underlying success factors, generic strategies, and internal, comparative, and comprehensive analysis methods. Additionally, it emphasizes the importance of adapting strategies based on ongoing assessments of organizational performance and environmental changes.Nature and scope of international financeNature and scope of international financeDr. Mital BhayaniThis document is a presentation on international finance that was given by Dr. Mital Bhayani. The presentation defines international finance as monetary transactions between two or more countries. It outlines the learning objectives, which are to explain the meaning of international finance, appreciate its importance and goals, describe its nature, compare it to domestic finance, and outline its scope. The presentation then covers the meaning, importance, nature, scope of international finance and how a country's economic wellbeing relates to globalization. It discusses key aspects like exchange rates, foreign exchange risk, political risk, and market imperfections.Target CostingTarget CostingAhmad Tariq BhattiTarget costing is a customer-centric costing system that originated in Japan during the 1960s, designed to reduce product costs to compete effectively in the market while maintaining functionality. It involves a structured process where cross-functional teams work iteratively to achieve target costs by analyzing functionalities, costs, and market conditions, thereby ensuring cost competitiveness throughout the product lifecycle. The approach has been widely adopted globally across various industries as a fundamental philosophy for managing costs and achieving desired profitability.Functional implementationFunctional implementationDr. Pinki InsanThe document discusses functional implementation and strategies in strategic management. It explains that functional implementation is carried out through functional plans and policies in five key areas: marketing, financial, operations, personnel, and information management. Functional strategies involve developing plans for each functional area to achieve business objectives. These strategies must have vertical and horizontal fit to ensure coordination across levels and functions. The document then provides examples of the types of plans and policies developed for each functional area, including marketing, operations, financial, human resources, and information management.Business Portfolio AnalysisBusiness Portfolio AnalysisProf.(Dr.) Nitin Zaware Business portfolio analysis is a technique that analyzes a company's different business units or products in the same way an investment portfolio is analyzed. It uses tools like the BCG matrix and GE nine-cell matrix to evaluate business units based on factors such as market share and market growth. This helps companies allocate resources more effectively by identifying strong business units in attractive markets that should receive more investment, and weak units in unattractive markets that may need to be improved or divested. While portfolio analysis provides a systematic approach and encourages strategic evaluation, the analyses can oversimplify strategies and produce static snapshots that may not account for changing market conditions.Portfolio evaluationPortfolio evaluationAshwini DasThis document discusses different methods for evaluating portfolio performance:- Portfolio managers evaluate performance to identify strengths and weaknesses and improve strategies. Evaluation provides feedback in the final stage of the investment process.- Sharpe's index measures risk-adjusted return by comparing the portfolio's excess return over the risk-free rate to the total risk in the portfolio. A higher index indicates better performance. - Treynor's index also measures risk-adjusted return but uses systematic risk (beta) rather than total risk. A higher Treynor index means more risk premium earned per unit of market risk.- Jensen's alpha measures the excess return of a portfolio above what would be predicted by the security's beta. A positive alphaMethods and techniques of organization appraisalMethods and techniques of organization appraisallakhwinder SinghThis document discusses various methods and techniques for organizational appraisal, including value chain analysis, qualitative analysis, quantitative analysis, historical analysis, industry standards, benchmarking, and the balanced scorecard. It provides details on each method, such as how value chain analysis is used to identify a firm's most valuable activities, how quantitative analysis includes financial and non-financial measures, and how the balanced scorecard translates a business's vision into objectives in four key areas: financial, customer, internal processes, and learning and growth. The document aims to outline different approaches for evaluating an organization's internal environment and identifying strengths and weaknesses.Target,kizen costing and abc..Target,kizen costing and abc..Manpreet MahalCost accounting tracks and analyzes costs to help businesses control expenses and maximize profits. Target costing determines the cost at which a product must be produced to generate desired profits at its anticipated selling price. It involves defining the product, setting cost targets, achieving targets, and maintaining competitive costs. Kaizen costing maintains present costs for existing products through continuous improvement efforts. Activity-based costing assigns overhead costs based on activities and cost drivers rather than direct labor hours, providing more accurate product costs.Strategic Cost Management Strategic Cost Management Yash MaheshwariThe document provides an introduction to strategic cost management (SCM). It discusses the limitations of traditional cost management including its short-term outlook, excessive focus on cost reduction, and reliance on internal factors. SCM is presented as having a long-term dynamic approach focused on achieving sustainable competitive advantages through product differentiation or cost leadership. The value chain concept is introduced as a way to identify value-adding and non-value adding activities within a company's processes. Porter's value chain model is described including primary and support activities.Cost management forece md engineerrs .pptCost management forece md engineerrs .pptRohitKumar639388Cost management is the process of planning and controlling costs associated with running a business. Strategic cost management aims to strengthen a company's strategic position by carefully controlling costs according to broader objectives. It combines cost information with decision-making to reinforce business strategy by measuring and managing costs in alignment with strategies. Strategic cost management offers a better understanding of an organization's cost structure to gain competitive advantage.1. Strategic Cost Management By Augustin Amaladas Prof. Augustin Amaladas 2. Strategic Management Traditional Management accounting is based on comparing actual results against pre set standard (Typically budget), identifying and analysing variances and taking remedial action to ensure that future outcomes confirm with budgeted outcomes. Existing activities are not reviewed. They are based on cost containment rather than cost reduction. But strategic management is focuses on cost reduction and continuous improvement. 3. Value analysis/value engineering Aims at the assigned target cost by A)identifying improved product design Eliminating unnecessary functions that increases product cost and for which customers are not willing to pay for it. Requires functional analysis The value for each element is determined which customer is willing to pay. 4. Value analysis/ value engineering Cost of each function of a product is compared with the benefits perceived by the customers. If the cost of the function exceeds the benefit to the customer, the function is either eliminated, modified to reduce the cost or enhanced in terms of its perceived value so that its value exceeds the cost. 5. 2.Business process reengineering Examining business process and making substantial changes Redesign of how work done through activities. Collection of activities that are linked together in a coordinated manner to achieve a specific objective Example: See next slide 7. Aims of reengineering Improve the key business processes Simplification, cost reduction, improved quality and enhanced customer satisfaction. 8. Process Sending production schedule direct to the nominated suppliers and ask the suppliers to deliver according to the production schedule. Inspection done for quality in the suppliers centre. Benefit: permanent reduction of storage cost, handling cost, inspection cost 9. Reengineering Features: 1. radical and dramatic changes in the processes 2. Abandoning current practices and reinventing completely new methods of performing business processes. 3. Focus on major changes rather than marginal change. 4.It also involves adopting JIT system 10. 3.TQM All business functions are involved in a process of continuous quality improvement Moved from statistical monitoring of manufacturing processes to customer oriented process of continuous improvement High quality but on time Earlier belief is that quality increases cost but it has saved many companies because of quality. Better to produce product at cheaper rate first rather than wasting resources by making substandard product and spending on rework, rejection, scraped or return to customers How is it done? 11. TQM Management accounting can provide reports and measures that motivate and evaluate managerial efforts to improve quality The reports are divided into 1.prevention cost 2.appraisal cost 3.Internal failure cost 4.external failure cost 12. Cost of quality report Quality training Supplier reviews Quality engineering Preventive maintenance 1.Prevention costs Percentage of sales 13. Cost of quality report Inspection of material received Inspection of WIP and completed units Testing equipment Quality audits 2. Appraisal costs 14. Cost of quality report Scrap Rework Down due to quality problems retesting 3. Internal failure cost 15. Cost of quality report Returns Recalls Warranty repairs Handling customer complaints Foregone contribution from lost sales 4. External failure costs 16. How Zero defects policy determined? Do not use percentages as a unit of measurement Use parts per million (PPM) It creates pressure for action and trend in defect rates. Quality reports are useful to top management where as non financial quality measures provide more timely and appropriate target measure for quality improvement. 17. Statistical tools Quality control chart used to distinguish between random and non-random variations in operating processes. We use X+1SD: X+2SD days usage Operation-A _ X+1SD _ X+2sd Statistical quality control chart _ X _ X-1sd _ X-2d 18. Control chart-explanations The control limits are based on a series of past observations of a process when it is under control and working efficiently. The Past observations are used to estimate the population mean and the population standard deviation. If control limits are say X+2sd , so that all observations are outside the range are investigated. X+/- 2sd covers 95.45% of the population therefore 4.55% of future operations would result from pure chance when process is under control. 19. Problems Page-958 views 22.2 in Drury 20. 4.Value chain analysis Performance of one activity affects the performance and cost of other activities. It gives link performance of one and its effects on the other. There are interdependent exist between activities and greater amount of coordination required 21. 5.Product life cycle costing Traditional management accounting control procedures have focused primarily on the manufacturing stage of a products life cycle. Pre-manufacturing costs such as R&D, design, post manufacturing abandonment and disposal costs are treated as period cost .They are not incorporated in the product cost calculation. 22. Product life cycle costing-continuation Life cycle costing estimates and accumulates costs over the entire product life cycle so that the profit earned will cover the entire life cycle cost. It helps management to understand the cost consequence of developing and making a product and identify areas for cost reduction. 23. Tradition vs life cycle reporting Most of the reporting on a perod by- period basis Profits are not monitored over the life of the product LCR traces costs and revenues over various calendar periods. Hurdles: tracing all costs inadequate feed back information 24. Product life cycle phases- relationship between costs committed and costs incurred Percentage of costs and committed Product life cycle Cost committed Post sales and service And abandonment phase Prod u ct planning And design phase Product manufacturing And sales phase Costs incurred 20% 40% 60% 80% 100% 25. Explanations 1.Cost management can be most effectively exercised during planning and design stage and not at the manufacturing stage. 2.Later stage more focus on cost containment than cost management. 3. Aeroplanes manufacturing-high costs at planning and development but huge abandonment costs at nuclear waste and other toxic chemicals. 1.80% of the costs are committed during the planning and design stage 2.Majority of costs are incurred at the manufacturing stage but they have aready become locked in at the planning and design stage and difficult to alter. 3.The pattern of cost commitment and incurrence will differ based on the industry and specific product introduced. 26. problems Advanced cost and management Accounting-by Saxana and Vasist Prob.16.48-P.16.59 Prob.16.49-P.16.61 Cost and management accounting by Drury-prob.22.18-P979-981 27. Activity Based Costing Historical development Traditionally cost accountants had arbitrarily added a broad percentage of expenses onto the direct costs to allow for the indirect costs . However as the percentages of indirect or overhead costs had risen, this technique became increasingly inaccurate because the indirect costs were not caused equally by all the products. For example, one product might take more time in one expensive machine than another product, but since the amount of direct labor and materials might be the same, the additional cost for the use of the machine would not be recognised when the same broad 'on-cost' percentage is added to all products. Consequently, when multiple products share common costs, there is a danger of one product subsidizing another. 28. The 1970s and 1980s The concepts of ABC were developed in the manufacturing sector of the United States during the 1970s and 1980s. During this time, the Consortium for Advanced Manufacturing-International , now known simply as CAM-I, provided a formative role for studying and formalizing the principles that have become more formally known as Activity-Based Costing. [1] 29. cost management systems Robin Cooper and Robert Kaplan , proponent of the Balanced Scorecard , brought notice to these concepts in a number of articles published in Harvard Business Review beginning in 1988. Cooper and Kaplan described ABC as an approach to solve the problems of traditional cost management systems . These traditional costing systems are often unable to determine accurately the actual costs of production and of the costs of related services. Consequently managers were making decisions based on inaccurate data especially where there are multiple products. 30. Instead of using broad arbitrary percentages to allocate costs, ABC seeks to identify cause and effect relationships to objectively assign costs. Once costs of the activities have been identified, the cost of each activity is attributed to each product to the extent that the product uses the activity. In this way ABC often identifies areas of high overhead costs per unit and so directs attention to finding ways to reduce the costs or to charge more for costly products. 31. They initially focused on manufacturing industry where increasing technology and productivity improvements have reduced the relative proportion of the direct costs of labor and materials, but have increased relative proportion of indirect costs. For example, increased automation has reduced labor, which is a direct cost, but has increased depreciation, which is an indirect cost. 32. Like manufacturing industries, financial institutions also have diverse products and customers which can cause cross-product cross-customer subsidies. Since personnel expenses represent the largest single component of non-interest expense in financial institutions, these costs must also be attributed more accurately to products and customers. Activity based costing, even though originally developed for manufacturing, may even be a more useful tool for doing this 33. cost driver Direct labor and materials are relatively easy to trace directly to products, but it is more difficult to directly allocate indirect costs to products. Where products use common resources differently, some sort of weighting is needed in the cost allocation process. The measure of the use of a shared activity by each of the products is known as the cost driver . For example, the cost of the activity of bank tellers can be ascribed to each product by measuring how long each product's transactions takes at the counter and then by measuring the number of each type of transaction. 34. Limitations Even in activity-based costing, some overhead costs are difficult to assign to products and customers, for example the chief executive's salary. These costs are termed 'business sustaining' and are not assigned to products and customers because there is no meaningful method. This lump of unallocated overhead costs must nevertheless be met by contributions from each of the products, but it is not as large as the overhead costs before ABC is employed. 35. Although some may argue that costs untraceable to activities should be "arbitrarily allocated" to products, it is important to realize that the only purpose of ABC is to provide information to management. Therefore, there is no reason to assign any cost in an arbitrary manner. 36. The Four Steps to ABC Implementation Identify activities perform an in-depth analysis of the operating processes of each responsibility segment. Each process may consist of one or more activities required by outputs. 37. Assign resource costs to activities this is sometimes called "tracing." Traceability refers to tracing costs to cost objects to determine why costs were incurred. DoD categorizes costs in three ways: Direct costs that can be traced directly to one output. Example: the material costs (varnish, wood, paint) to build a chair. Indirect costs that cannot be allocated to an individual output; in other words, they benefit two or more outputs, but not all outputs. Examples: maintenance costs for the saws that cut the wood, storage costs, other construction materials, and quality assurance.) General & Administrative costs that cannot reasonably be associated with any particular product or service produced (overhead). These costs would remain the same no matter what output the activity produced. Examples: salaries of personnel in purchasing department, depreciation on equipment, and plant security 38. Identify outputs y Identify all of the outputs for which an activity segment performs activities and consumes resources. Outputs can be products, services, or customers (persons or entities to whom a federal agency is required to provide goods or services 39. Assign activity costs to outputs activity costs to outputs using activity drivers. Activity drivers assign activity costs to outputs based on individual outputs consumption or demand for activities. For example, a driver may be the number of times an activity is performed (transaction driver) or the length of time an activity is performed (duration driver). 40. Activity-Based Costing encourages managers to identify which activities are value-addedthose that will best accomplish a mission, deliver a service, or meet a customer demand. It improves operational efficiency and enhances decision-making through better, more meaningful cost information 41. 6.Activity based costing/Target costing Mechanism for determining selling prices. It is a cost management tool. TATA tries to manufacture a car at Rs. 1 ,00,000. is a typical example for target costing. 42. Stages of target costing 1. Determine the target price which customers will be prepared to pay for the product 2.Deduct a target profit margin fro the target price to determine the target cost 3. Estimate the actual cost of the product 4.If estimated actual cost exceeds the target cost , investigate ways of driving down the actual cost to the target cost 43. Target costing-Continues Customer oriented approach Used by Japanese copanies and recently adopted by Europe and the USA. Recently call canters are trying to adopt this as Indian currency strengthened. 44. Procedures: 1.Market research to find the customers perceived value-tear down analysis-examining the competitors products-dismantling of the competitor's product.use value engineering 2.How customers differentiate the product from the competitors 3.Target profit margin depends on planned return on investment and fix % of profits on sales 4.Decomposed into a target profit for each product. 5.Deduct the target profit from target price 6.Compare with the predicted actual cost. 7. If predicted cost>target cost then efforts are made to close the gap. 45. What is required? Team approach Team members include: 1.designers 2. engineers 3. Purchasing 4. manufacturing 5. marketing 6. management accounting personnel The discipline of a team approach ensures that no particular group is able to impose functional preferences. Aim During product design process is that elimination of product functions that add costs which do not increase market price. 46. Role of suppliers Suppliers are included in the design team They can suggest standard parts/alternative parts instead of custom-design parts which will reduce the product cost. 47. If target costs not achieved ? Product should not be launched Design teams should not be allowed to achieve target cost by eliminating desirable product functions. Design teams use tear-down analysis Value engineering is to achieve the target cost. 49. 7. Kaizen costing It is a mechanism for reducing and managing costs. Improvement to the process rather than applied during design stage. Cost reduction through the increased efficiency of the production process. To reduce the cost of components and the products by a pre-specified amount It is heavily on empowerment of employees Workers are given more responsibilities to improve the processes and reduce costs. 50. 8.The balanced score card The most recent contribution to strategic management accounting Integrated framework of performance measurement Balanced score card analysis by Southwest Airlines-Next page 51. Balanced score card analysis by Southwest by Kaplan and Norton Balanced score card analysis 2.Customer How do customer See us? 3.Internal What must we excel At? 4.Learning Can we continue to Improve and Create value? 1.Financial How do we look To shareholders? 52. 1.Financial potential score card measures(Looking back) Market share Revenue growth Operating profit Return on equity Stock Market Performance Growth in margin Patient censes Unit profitability Fund raised For capital Improvement Cost per care % of revenue -new program Revenue/cost Per available Passenger mile Mix of freight Mix of full fare To discounted Average age of fleet Available seat Miles and related yields Outstanding Loan balances Deposit balances Non interest income Generic Health care Airlines Banking 53. 2.Customer service and satisfaction(Looking from the outside in) Customer satisfaction Customer retention Quality customer Service Sales from new Products/services Patient satisfactory Survey Patient retention Patient referral Rate Admission or dis Charge timeliness Medical plan awareness Lost bag report Per 10000 Passangers Denied boarding Rate Flight cancellation Rate Customer compla Ins. Customer retention No. of new Customers No.of products Per customer Face time spent Between loan Officers and customers Generic Health care Airlines Banking 54. 3. Internal operating efficiency (Inside out) Delivery time cost Process quality Error rates on Shipments Supplier satisfaction Weekly patient Complaints Patient loads Breakthroughs In treatments and Medicines Infection rates Re-admission Rate Length of stay Load factors (% of seat occupied) Utilisation factor On time performance Sales calls to Potential Customers thank you calls Cards to new Customers Cross selling statistics Generic Health care Airlines Banking 55. 4. Learning and Growth(looking ahed) Employee skill Level Training availa Bility Employee satisfaction Job retention Over time worked Vacation Time taken Trainighours Per care giver No. of peer viewed Papers published No.of grants awarded Referring MDs Employee turnover rate Employee Absenteeism Work safety statistics Performance Appraisals completed Training programs Hours per employee Test results from Training knowledge Of product offering, Sales, and service Employee satis Faction survey Generic Health care Airlines Banking 56. Soutern Airlines Balanced Scorecard frame work Cycle time optimisation ESOP Ground crew training 30 minutes 90% Yr.1 70% Yr.3 90% Yr.5 100% On ground time On time departure %ground crew trained % Ground crew stockholders Fast internal Turnaround Ground crew alignment Internal learning Quality management Customer loyalty program 1 1 FAA on time arrival rating Customer ranking(Market) Flight is on time Lowest prices Customer 30% CAGR 20% CAGR 5% CAGR Market value Seat revenue Plane least cost Profitability More customers Fewer planes Financial Initiative (Key action) Target(rate Of improvementneeded) Measurement How success are measured) Objectives (achieve&critical to success) Strategic theme Operating efficiency 57. Benefits and limitations 1. single report but four different perspective 2.Specific performance measure Operational measurements together Improves communications within organisation 58. Problems Drury-27.17 page-1024 Drury-23.18 page 1025 59. Activity Based costing Learning objectives: Explain why a cost accumulation system is required for generating relevant cost information for decision making; Describe the differences between activity-based and traditional 1 Chapter 11 Strategic Cost ManagementCOPYRIGHT 2009 South-Western Publishing, adivisionofCengage Learning. Cengage Learningand South-Western are trademarks used herein under license. 2 Study Objectives Explain what strategic cost management is and how it can be used to help a firm create a competitive advantage. Discuss value-chain analysis and the strategic role of activity-based customer and supplier costing. Tell what life-cycle cost management is and how it can be used to maximize profits over a products life cycle. Identify the basic features of JIT purchasing and manufacturing. Describe the effect JIT has on cost traceability and product costing. 3 Strategic Cost Management: Basic Concepts1. Three general strategies have been identified: Cost leadership Product differentiation Focusing 4 Strategic Cost Management: Basic Concepts1. Cost leadership strategy To provide the same or better value to customers at a lower cost than offered by competitors. A company might redesign a product so that fewer parts are needed, lowering production costs and the costs of maintaining the product after purchase. 5 Strategic Cost Management: Basic Concepts1. Differentiation strategy Strives to increase customer value by increasing what the customer receives (customer realization). A retailer of computers might offer on-site repair service, a feature not offered by other rivals in the local market 6 Strategic Cost Management: Basic Concepts1. Focusing strategy A firm selects or emphasizes a market or customer segment in which to compete. Paging Network, Inc., a paging services provider, has targeted particular kinds of customers and is in the process of weeding out the nontargeted customers. 7 Strategic Cost Management: Basic Concepts1. The industrial value chain The linked set of value-creating activities from basic raw materials to the disposal of the finished product by end-use customers. Fundamental to a value-chain framework is the recognition that there exist complex linkages and interrelationships among activities both within and external to the firm. 8 Strategic Cost Management: Basic Concepts1. Value-chain framework linkages Internal linkages: relationships among activities that are performed within a firms portion of the value chain External linkages: the firms value-chain activities that are performed with its suppliers and customers Supplier linkages Customer linkages 9 Strategic Cost Management: Basic Concepts1. 10 Strategic Cost Management: Basic Concepts1. Organizational activities: Structural activities: activities that determine the underlying economic structure of the organization. Executional activities: activities that define the processes and capabilities of an organization and thus are directly related to the ability of an organization to execute successfully. 11 Strategic Cost Management: Basic Concepts1. 12 Strategic Cost Management: Basic Concepts1. 13 Strategic Cost Management: Basic Concepts1. 14 Value-Chain Analysis 2. 15 Value-Chain Analysis 2. Internal Linkage Analysis ExampleAdditionally, the following activity cost data are provided: 16 Value-Chain Analysis 2. Internal Linkage Analysis ExampleMaterial usage: $3 per part used; no fixed activity cost. Assembly: $12 per direct labor hour; no fixed activity cost Purchasing: Three salaried clerks, each earning a $30,000 annual salary; each clerk is capable of processing 5,000 purchase orders annually. Variable activity costs: $0.50 per purchase order processed for forms, postage, etc. Warranty: Two repair agents, each paid a salary of $28,000 per year; each repair agent is capable of repairing 500 units per year. Variable activity costs: $20 per product repaired. 17 Value-Chain Analysis 2. Internal Linkage Analysis Example 18 Value-Chain Analysis 2. 19 Value-Chain Analysis 2. 20 Value-Chain Analysis 2. Internal Linkage Analysis ExampleReworking rate =$200,000 1,000 =$200 per failed component ( ) ( ) Expediting rate =$50,000 50 =$1,000 per late delivery 21 Value-Chain Analysis 2. 22 Value-Chain Analysis 2. *Order-filling capacity is purchased in blocks of 45 (225 capacity), each block costing $40,400; variable order-filling activity costs are $2,000 per order; thus, the cost is [(5 $40,400) + (202 $2,000)] 23 Life-Cycle Cost Management3. Basic views of the product life cycle: Marketing viewpoint Production viewpoint Consumable life viewpoint 24 Life-Cycle Cost Management3. 25 Life-Cycle Cost Management3. 26 Life-Cycle Cost Management3. Cost Reduction Example Cost Behavior Functional-based system: Variable conversion activity rate:$40per direct labor hour Material usage rate: $8per part ABC system: Labor usage $10per direct labor hour Material usage: $8per part Machining: $28per machine hour Purchasing activity: $60per purchase order Setup activity: $1,000per setup hour Warranty activity: $200per returned unit Customer repair cost$10per hour 27 Life-Cycle Cost Management3. Cost Reduction Example 28 Life-Cycle Cost Management3. 29 Life-Cycle Cost Management3. 30 Life-Cycle Cost Management3. Cost reduction methods: reverse engineering value analysis process improvement 31 Life-Cycle Cost Management3. 32 JIT and Its Effect on the Cost Management System5. JIT Traditional Pull-through system Insignificant inventories Small supplier base Long-term supplier contracts Cellular structure Multiskilled labor Decentralized services High employee involvement Facilitating management style Total quality control Buyers market Value-chain focus Push-through system Significant inventories Large supplier base Short-term supplier contracts Departmental structure Specialized labor Centralized services Low employee involvement Supervisory management style Acceptable quality level Sellers market Value-added focus 33 Cost Flows: Traditional Compared with JIT5. Transaction 1: Purchase of raw materials. Traditional Journal Entry Materials Inventory160,000 Accounts Payable 160,000 Back-Flush Journal Entry Raw Materials and In-Process Inven160,000 Accounts Payable 160,000 34 Cost Flows: Traditional Compared with JIT5. Transaction 2: Materials issued to production. Traditional Journal Entry Work-in-Process Inventory160,000 Materials Inventory 160,000 No entry Back-Flush Journal Entry 35 Cost Flows: Traditional Compared with JIT5. Transaction 3: Direct labor cost incurred. Traditional Journal Entry Work-in-Process Inventory25,000 Wages Payable 25,000 Combined with overhead: See next entry. Back-Flush Journal Entry 36 Cost Flows: Traditional Compared with JIT5. Transaction 4: Overhead cost incurred. Traditional Journal Entry Overhead Control225,000 Accounts Payable 225,000 Conversion Cost Control250,000 Wages Payable 25,000 Accounts Payable 225,000 Back-Flush Journal Entry 37 Cost Flows: Traditional Compared with JIT5. Transaction 5: Application of overhead. Traditional Journal Entry Work-in-Process Inventory210,000 Overhead Control 210,000 No entry. Back-Flush Journal Entry 38 Cost Flows: Traditional Compared with JIT5. Transaction 6: Completion of goods. Traditional Journal Entry Finished Goods Inventory395,000 Work-in-Process Inventory 395,000 Finished Goods Inventory395,000 Raw Materials and in-Process Inventory 160,000 Conversion Cost Control 235,000 Back-Flush Journal Entry 39 Cost Flows: Traditional Compared with JIT5. Transaction 7: Goods are sold. Traditional Journal Entry Cost of Goods Sold395,000 Finished Goods Inventory 395,000 Cost of Goods Sold395