

M5 – ADVANCED MANAGEMENT ACCOUNTING
MANAGERIAL LEVEL-2
INTRODUCTION

This course is designed to focus on the identification and application of advanced management accounting techniques for decision-making in a specific area. This course also enables the management accountant to identify the deviation during performance measurement of cost centres, revenue and profit centres for taking remedial action of the management.

OBJECTIVE

To provide the students with an in-depth knowledge of management accounting, to enable them to:

- Apply management accounting techniques for analysing the information, and presenting it to management for decision-making and control purposes, and
- Formulate strategic plans for achieving efficiency and effectiveness in the operation of business.

LEARNING OUTCOMES

On completion of this course, students will be able to:

- Comprehend the purpose of forecasting, planning and budgeting;

- Perform regression analysis, identify components of time series;
- Identify steps in budget preparation and get acquainted with the different types of budgets;
- Realize the uses of standard costing and variances analysis;
- Comprehend capital investment decisions and calculate NPV and IRR and discounted payback period;
- Calculate sensitivity of a project;
- Calculate breakeven point and apply breakeven analysis
- Prioritise projects that mutually exclusive, involve unequal lives and are subject to capital rationing;
- Differentiate between absorption and ABC costing and realize the reasons for the development of ABC;
- Apply the modern costing techniques including activity-based costing, throughput and back flush accounting and environmental costing for better decision making,
- Calculate working capital, working capital ratios, cash flows and profit;
- Realize the importance of cash flow and working capital management;

INDICATIVE GRID

PART	SYLLABUS CONTENT AREA	WEIGHTAGE
	FORECASTING AND BUDGETING TECHNIQUES	
A	1. Forecasts 2. Budgeting 3. Budgetary Control	15%
	STANDARD COSTING AND VARIANCE ANALYSIS	
B	4. Standard Costing 5. Variance Analysis, Interpretation and Profit Reconciliation	15%
	PROJECT APPRAISAL METHODS	
C	6. Capital Investment decisions 7. DCF techniques of investment appraisal 8. Taking account of taxation and inflation 9. Additional aspects of investment decision making	20%
	COST ANALYSIS	
D	10. Break Even Analysis 11. Limiting factor Analysis	15%
	MODERN COSTING TECHNIQUES	
E	12. Marginal Cost Analysis 13. Activity Based Costing 14. Throughput and Back flush Accounting 15. Environmental costing	20%
	MANAGING SHORT-TERM FINANCE	
F	16. Working Capital Management 17. Cash Management 18. Receivables & Payables Management 19. Inventory Management	15%
	TOTAL	100%

Note: The weightage shown against each section indicates, study time required for the topics in that section. This weightage does not necessarily specify the number of marks to be allocated to that section in the examination.

DETAILED CONTENTS
PART - A
FORECASTING AND BUDGETING TECHNIQUES
1. Forecasts

- Forecasting using historical data
- Linear regression analysis
- Scatter diagrams and correlation
- Sales forecasting
- Regression and forecasting
- Components of time series
- Finding the trend

2. Budgeting

- Finding the seasonal variations
- Time series analysis and forecasting Using spreadsheet packages to build business models
- Why do organizations prepare budgets
- Framework for budgeting
- Steps in Budget preparation
- Functional budgets
- Budgetary Planning and Control system
- Sales Budgets

- Production Budget and related budgets
- Cash Budgets
- Master Budgets
- Capital Expenditure Budgets
- Monitoring procedures
- Fix and flexible budgets (static/planning budget and Flexible budget)
- Preparing flexible budgets (Calculation of Spending and Revenue variances are included)
- Preparation of projected profit and loss account and balance sheet

3. Budgetary Control

- Flexible Budgets and Budgetary Control
- System design
- Using Spread sheets to build business models
- Rolling Budgets
- Behavioral implications of budgeting
- Budget Participation
- Use of Budgets as Targets
- Budget and Motivation

Beyond Budgeting

PART - B

STANDARD COSTING AND VARIANCE ANALYSIS

4. Standard Costing

- Uses of Standard costing
- Setting standards for manufacturing cost i.e., material, labour and manufacturing overheads
- Basic standards, ideal standards and attainable standards
- Setting standard in service industries
- Updating standards
- Comparison of budget and standard
- Criticism of standard costing

5. Variance Analysis, Interpretation and Profit Reconciliation

- Variances
- Direct material cost variances
- Direct labour cost variances
- Variable overhead variances
- Fixed overhead variances
- Planning and operational variances
- Sales variances
- Operating statements
- Variances in a standard marginal costing
- Working backwards approach to variance analysis
- Material mix and yield variances
- Labour mix and yield variances
- Sales mix and quantity variances
- Investigate variance or not to investigate variance
- Variance investigation model
- Controllability principle in Joint Variances
- Interpreting variances
- Profit reconciliation (standard absorption costing and standard marginal costing systems)

PART - C

PROJECT APPRAISAL METHODS

6. Capital Investment decisions

- Process of investment decision making
- Payback Method
- Post Audit

7. DCF techniques of investment appraisal

- Discounted payback
- The net present value method

- The internal rate of return method
- NPV and IRR compared

8. Taking account of taxation and inflation

- Allowing for inflation (Adjusting cash flows for inflation)

9. Additional aspects of investment decision making

- Mutually exclusive projects with unequal lives
- Asset replacement
- Project abandonment
- Capital rationing
- Sensitivity analysis
- Probability analysis and long-term decisions

PART - D

COST ANALYSIS

10. Break Even Analysis

- Breakeven Analysis and Contribution Margin
- Breakeven Point in units and value for single product
- Contribution/Sales (C/S) Ratio
- Margin of Safety and Margin of Safety Ratio
- Breakeven arithmetic and profit targets
- Breakeven charts and profit/volume graphs
- Limitation of Breakeven analysis

11. Limiting factor Analysis

- Limiting factors
- Limiting factor analysis and restricted freedom of action
- Optimum production plan with scarce resources
- Make or buy decisions and scarce resources
- Limiting factors and shadow prices
- Using limiting factors analysis
- Sell or process further decisions
- Accept or reject special orders
- Dropping a product line or a segment of business

PART - E

MODERN COSTING TECHNIQUES

12. Marginal Cost Analysis

- Marginal Costing as a tool for business decision making
- Concept of marginal cost and total cost with respect to business decision making

13. Activity Based Costing

- Reasons for the development of ABC
- Outline of an ABC system
- Absorption costing versus ABC
- Marginal costing versus ABC
- Introducing an ABC system
- Benefits of ABC system

14. Throughput and Back flush Accounting

- The theory of constraints (TOC)
- Throughput accounting

15. Environmental costing

- The importance of environmental costs
- Environmental footprints
- Types of cost
- Environmental cost accounting

PART - F

MANAGING SHORT-TERM FINANCE

16. Working Capital Management

- Working capital
- Working capital ratios
- Cash Conversion Cycle

17. Cash Management

- Budgeting for borrowings
- Overdrafts
- Loans
- Trade payables as a source of finance
- Export finance
- Cash surpluses
- Cash investments: bank and building society accounts
- Marketable securities: prices and interest rates
- Other types of investment

18. Receivables & Payables Management

- What is credit control?
- Total credit
- The credit cycle
- Payments terms and settlement discounts
- Maintaining information on receivables
- Collecting debts
- Credit insurance, factoring and invoice discounting
- Managing payables

19. Inventory Management

- Managing inventories
- Inventory controls systems