



# Advanced Management Accounting

Management level | Subject P2  
**CIMA official revision cards**

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## ADVANCED MANAGEMENT ACCOUNTING

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### How to use Revision Cards

#### The concept

- Revision Cards are a new and different way of learning, based upon research into learning styles and effective recall.
- The cards are in full colour and have text supported by a range of images, making them far more effective for visual learners and easier to remember.
- Unlike a bound text, Revision Cards can be rearranged and reorganised to appeal to kinaesthetic learners who prefer to learn by doing.
- Being small enough to carry around means that you can take them anywhere. This gives the opportunity to keep going over what you need to learn and so helps with recall.
- The content has been reduced down to the most important areas, making it far easier to digest and identify the relationships between key topics.
- Revision Cards, however you learn, whoever you are, wherever you are.....

### How to use them

Revision Cards are a pack of approximately 52 cards, slightly bigger than traditional playing cards but still very easy to carry and so convenient to use when travelling or moving around. They can be used during the tuition period or at revision.

They are broken up into 4 sections.

- An overview of the entire subject in a mind map form (orange).
- A mind map of each specific topic (blue).
- Content for each topic presented so that it is memorable (green).
- Exam tips with references to past questions on each topic (purple).

Each one is a different colour, allowing you to sort them in many ways.

- Perhaps you want to get a more detailed feel for each topic, why not take all the green cards out of the pack and use those.
- You could create your own mind maps using the blue cards to explore how different topics fit together.
- If at the revision phase why not take all the purple cards and work through the past questions identified.
- And if there are some topics that you understand, take those out of the pack, leaving yourself only the ones you need to concentrate on.

There are just so many ways you can use them.

## ADVANCED MANAGEMENT ACCOUNTING

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- Chapter 1 Activity-Based Costing and Activity-Based Management
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## ADVANCED MANAGEMENT ACCOUNTING

### Core areas of the syllabus

A Managing the costs of creating value	25%
B Capital investment decision making	35%
C Managing and controlling the performance of organisational units	30%
D Risk and control	15%

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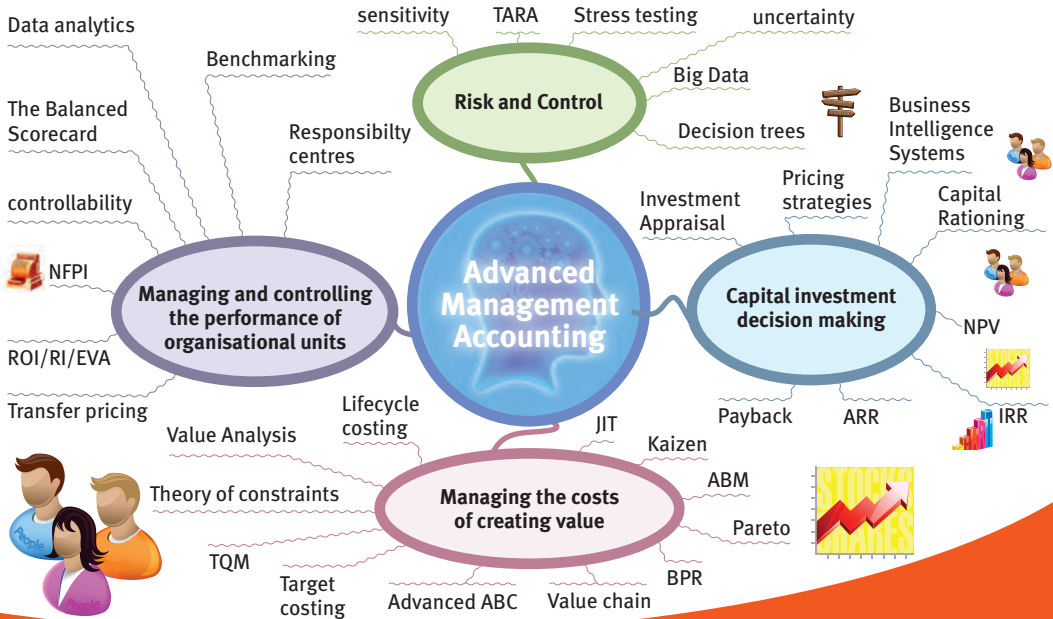


# overview

performance management

KaplanCards 

# ADVANCED MANAGEMENT ACCOUNTING

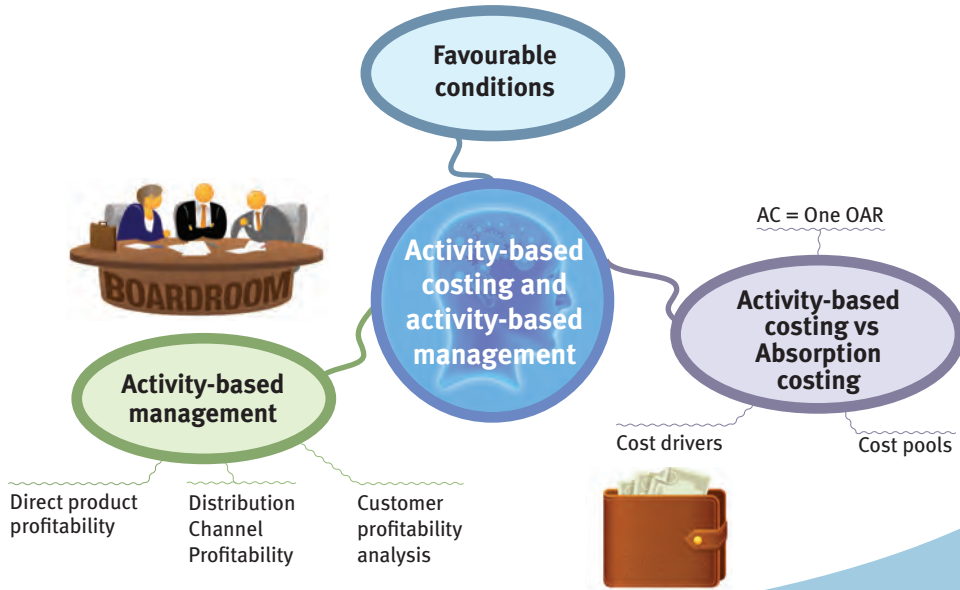






# **Activity-based costing and Activity-based management**

**advanced management accounting**



## Advanced activity-based costing

In a **traditional system of absorption costing**, costs are gathered together, based on where they are incurred, i.e. cost centres, and the cost objects are costed based on absorption rates.

In ABC, costs are gathered together into cost pools or cost activities, and the cost objects are costed, based on activity cost drivers.



Identify the organisation's major activities.



Estimate the costs associated with performing each activity – these costs are collected into cost pools.



Identify the factors that influence the cost pools - cost drivers





Cost driver rate =  $\text{Cost pool} \div \text{Level of cost drivers}$



Charge the overheads to the products by applying the cost driver rates to the activity usage of the products.

## Activity-based costing

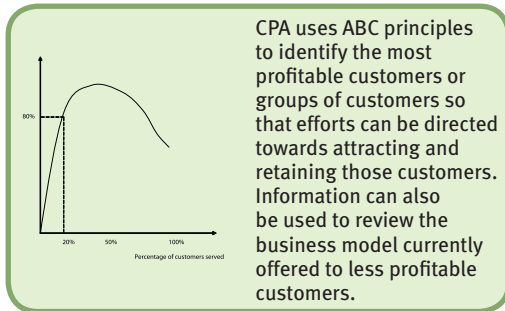
Benefits	Disadvantages
Provides more accurate product-line costings, particularly where non-volume related overheads are significant and a diverse product line is manufactured.	Little evidence that ABC improves corporate profitability 
ABC is flexible enough to analyse costs by cost objects other than products, such as processes, area of managerial responsibility and customers.	ABC information is historic and internally oriented. It therefore lacks direct relevance for future strategic decisions.
Provides a reliable indication of long-run variable product cost which is particularly relevant to managerial decision-making at a strategic level.	Practical problems such as cost driver selection.
Provides meaningful financial (periodic cost driver rates) and non-financial (periodic cost driver volumes) measures which are relevant for cost management and performance assessment at an operational level 	Its novelty is questionable. It may be viewed as simply a rigorous application of conventional costing procedures.

## Activity-based management

ABM is a system of management which uses ABC information for a variety of purposes. It focuses management attention on key value-adding activities, key customers and key products in order to maintain or increase competitive advantage.



## Customer profitability analysis



## Customer profitability statement – Customer A

Revenue	\$100
Less Cost of sales	\$50
Gross margin	\$50
Less : customer specific costs :	
Number of Customer A orders processed x cost per order	\$20
Number of miles travelled for visits x cost per mile	\$5
Number of after sales visits x cost per visit	\$3
Net margin from Customer A	\$22

Different customers and customer groups will make use of different activities and to varying degrees. ABC creates customer profiles and the analysis of customer profitability.

## Direct product profitability

DPP is a modern way of absorbing overheads in retail organisations. DPP deducts bought-in costs from selling price to arrive at gross profit margins, but indirect costs are also deducted from gross margin to arrive at a direct product profit.

Those indirect costs are based on the way the goods have used or created them.

### Direct Product Profitability Statement – Product A

Revenue	\$100
Less bought-in price	\$50
Gross margin	\$50
Less : direct product costs :	
Warehouse costs	\$20
Transport costs	\$5
Store costs	\$3
<b>Net margin from Product A</b>	<b>\$22</b>



Retailers analyse the direct profitability of every product they sell. This helps them to decide on what ranges to present in store and also provides a focus for marketing initiatives.



Non-product specific costs should be ignored in calculating a product 's direct profitability.

### **Pareto (80/20 rule)**

A Pareto analysis is based on the observed phenomenon that 80% of a population's wealth is owned by 20% of the people.

Pareto analysis simply aims to identify the most significant areas within one aspect of the business, thus allowing management to focus on and control these most important areas.

In management accounting the principle holds true in many situations, for example with the relationship between

- Contribution and revenue 
- Customers and profit 
- Inventory items and inventory value

## Total profit

