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Relevant costing focuses on identifying costs and revenues that are relevant to a specific decision.

Capital Budgeting

Capital budgeting involves evaluating long-term investment projects using techniques like Net Present Value (NPV) and Internal Rate of Return (IRR).

Conclusion

Cost and managerial accounting provides essential tools for internal decision-making, planning, and control. By understanding these concepts, managers can make more informed decisions, improve efficiency, and drive profitability.

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Job costing is used when products are made to order. Costs are accumulated for each job or batch.

2. **Process Costing**

Process costing is used in industries with continuous mass production of similar units. Costs are accumulated by department or process.

3. Activity-Based Costing (ABC)

ABC assigns overhead costs to products based on the activities that cause those costs.

Budgeting and Variance Analysis

Master Budget

The master budget is a comprehensive financial plan for the entire organization, typically covering a fiscal year.

Flexible Budgeting

Flexible budgets adjust for changes in activity levels, providing more realistic performance evaluations.

Variance Analysis

Variance analysis compares actual results with budgeted or standard amounts to identify deviations and their causes.

Performance Measurement

Responsibility Accounting

This system measures the performance of each responsibility center (cost center, profit center, investment center) within an organization.

Balanced Scorecard

The balanced scorecard is a strategic planning and management system that aligns business activities with the organization's vision and strategy.

Decision-Making Techniques

Relevant Costing

Topic 3
Introduction to Cost and Managerial Accounting

Cost and managerial accounting focuses on the collection, analysis, and use of financial information for internal business decisions. Unlike financial accounting, which is geared towards external stakeholders, managerial accounting provides detailed information to help managers plan, control, and make decisions.

Key Concepts in Cost Accounting

Cost Classification

Costs can be classified in several ways:

1. Direct vs. Indirect Costs
   - Direct costs are easily traceable to a specific product or service.
   - Indirect costs (overhead) are not directly attributable to a single product or service.

2. Fixed vs. Variable Costs
   - Fixed costs remain constant regardless of production volume.
   - Variable costs change in proportion to production volume.

3. Product vs. Period Costs
   - Product costs are directly related to the production of goods.
   - Period costs are expenses incurred during a specific accounting period.

Cost Behavior

Understanding how costs change with activity levels is crucial. The main patterns are:

- Linear cost behavior
- Step-cost behavior
- Mixed (semi-variable) cost behavior

Cost-Volume-Profit (CVP) Analysis

CVP analysis examines the relationships between costs, volume, and profits. Key concepts include:

1. **Break-even Point**: The point at which total revenues equal total costs.
2. **Contribution Margin**: The difference between sales price and variable costs.
3. **Operating Leverage:** The degree to which a company uses fixed costs in its operations.

Costing Methods

1. **Job Costing**