9. Management Accounting – Decision Making

Syllabus review

Following a review of this syllabus CIMA has introduced some changes which will be assessed for the first time in **May 2003**.

Syllabus overview

Decision Making builds on the introduction to costing and accounting systems and decision making provided by Management Accounting Fundamentals and Performance Management, and covers investment appraisal, international business and management accounting issues and developments.

While this paper will develop students' ability to apply a range of management accounting techniques and decision-making tools to the business environment, students will also have to demonstrate an understanding of these tools and the issues that surround their use. Students must also appreciate the contribution made by information technology to management accounting.

Aims

This syllabus aims to test the student's ability to:
- evaluate costing and accounting systems;
- apply and evaluate techniques used in management decision making;
- apply and evaluate alternative methods of investment appraisal;
- apply management accounting principles and techniques within international and business development contexts for a wide range of sectors, including, manufacturing, retail and service.

Assessment

There will be a written paper of three hours. The paper comprises of four sections:
- Section A (20 marks): 10 x multiple choice questions (compulsory).
- Section B (30 marks): One compulsory question.
- Section C (25 marks): One question from two.
- Section D (25 marks): One question from two.

Learning outcomes and syllabus content

9(i) Decision making - 40%

Learning outcomes

On completion of their studies students should be able to:
• identify and discuss relevant costs and benefits;
• identify and discuss qualitative factors;
• identify and discuss external pricing strategies;
• evaluate external pricing strategies using sales variance analysis;
• compare and contrast cost and profit centres;
• explain and demonstrate transfer pricing systems;
• apply and evaluate profit maximisation;
• prepare formulae for a two-plus constraint/limitation problem for two-plus products using the Simplex method and interpret the results;
• discuss the linear programming model;
• prepare and interpret reports using Pareto analysis;
• discuss risk and uncertainty;
• apply and discuss decision trees;
• evaluate the value of information.

Syllabus content

• Relevant costs and benefits.
• Joint cost allocations, common costs.
• Qualitative factors.
• Sales mix, quantity, market size and market share variances (Note: these variances will be calculated on a units basis using sales revenue, contribution or gross profit).
• External pricing strategies: premium pricing, penetration pricing, market skimming, optional extras, loss leaders, product differentiation, product bundling.
• Transfer pricing: no market/ imperfect market for intermediates, negotiated prices, dual pricing, two-part tariff and supplementing full cost with subsidies to spread risk.
• Transfer pricing: taxation, currency, remittance of funds.
• Profit maximisation. (Note: the use of calculus is not required.)
• Linear programming.
• Pareto analysis.
• Risk and uncertainty.
• Decision trees.

9(ii) Costing and accounting systems - 30%

Learning outcomes

On completion of their studies students should be able to:
• apply and evaluate activity-based costing and activity-based management;
• apply and evaluate direct product profitability;
• apply and evaluate alternative costing and accounting systems: backflush accounting, just in time, standard costing, throughput accounting, overhead allocation (Japanese), absorption costing, marginal costing, activity based costing,
• calculate and explain planning and operational variances;
• discuss the behavioural implications of standard costing;
• apply and evaluate target costing;
• apply and evaluate life cycle costing;
• calculate the standard cost for a product which exhibits the learning effect;
• explain and evaluate why it is necessary to take account of the experience and learning curve effect.

Syllabus content

• Activity-based costing and activity-based management.
• Customer profitability analysis.
• Direct product profitability.
• Individual material mix, and total yield, variances (using individual or average valuation bases).
• Individual labour mix, and total yield, variances (using individual or average valuation bases).
• Alternative cost and accounting systems.
• Theory of constraints and throughput accounting.
• Planning and operational variances.
• Behavioural aspects of standard costing and alternative costing systems.
• Target costing.
• Life cycle costing.
• Learning curve (Note: derivation of the learning index and the learning rate is required).

9(iii) Investment appraisal - 30%

Learning outcomes

On completion of their studies students should be able to:
• explain the capital budgeting process;
• evaluate projects using investment appraisal techniques;
• evaluate alternative investment appraisal techniques;
• discuss the relevance of qualitative factors;
• prepare project cashflows that take account of taxation and inflation;
• evaluate mutually exclusive projects with unequal lives;
• apply sensitivity analysis to cashflows;
• calculate abandonment values;
• discuss post-completion appraisal;
• discuss investment centres;
• calculate and evaluate return on investment and residual income;
• discuss the behavioural implications of return on investment and residual income.

Syllabus content

• Capital budgeting process.
• Investment appraisal techniques: payback, discounted payback, accounting rate of return, net present value, internal rate of return.
• Taxation.
• Inflation.
• Unequal lives.
• Sensitivity analysis.
• Project abandonment.
• Post-completion appraisal.
• Investment centres.
• Return on investment.
• Residual income.