ICMA INTERNATIONAL
lead strategically

S4 - STRATEGIC MANAGEMENT ACCOUNTING   STRATEGIC LEVEL-2

INTRODUCTION
This course is designed to focus on the identification and application of 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, you should be able to:
- Use different cost analysis and cost management techniques like activity-based costing (ABC), just-in-time (JIT), total quality management and supply chain management
- Identify and make effective use of relevant cost
- Take short- term decision like acceptance/rejection of contracts, make or buy decisions and allocation of joint costs
- Get acquainted with risk and uncertainty in decision making, probability analysis and expected values, decision trees and sensitivity analysis
- Use effectively the linear programming technique for determination of the best use of available resources for profit and revenue maximising
- Understand techniques of marginal cost and full cost analysis
- Develop cost management information to facilitate the principal management function and strategic management
- Generate information on the basis of pricing decision and pricing strategies like demand-based pricing, full cost pricing and marginal cost-plus/mark-up pricing
- Measure the performance in divisionalised businesses
- Get acquainted with transfer pricing

INDICATIVE GRID

PART	SYLLABUS CONTENT AREA	WEIGHTAGE
A	**COST PLANNING, ANALYSIS AND TECHNIQUES** 1. Cost Planning 2. Cost Analysis 3. Cost Management Techniques	25%
B	**PRICING AND PRODUCT DECISIONS** 4. Relevant Costs 5. Short-term decisions 6. Risk and uncertainty 7. Linear programming: the graphical method 8. Linear programming: the simplex method 9. Multi-product breakeven analysis 10. Pricing decisions and pricing strategies	40%
C	**PERFORMANCE MANAGEMENT AND RESPONSIBILITY CENTRE** 11. Performance Evaluation 12. Measuring performance in Divisionalised businesses 13. Transfer pricing	35%
	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
COST PLANNING, ANALYSIS AND TECHNIQUES

1. **Cost Planning**
   - Learning Curve
     - What is learning curve theory?
     - Its application in budgeting, variances and product costing including reverse calculation e.g., calculation of learning rate if cost is given at a certain level
   - Life Cycle Costing
     - Concept of life cycle costing
     - Calculation of product life cycle cost and life cycle cost per unit
     - (Note: Ignore time value of money in calculation of life cycle costs.)
   - Target Costing
     - What is target costing and target cost?
     - Calculation of Target cost gap
     - How to close target cost gap? i.e., techniques for minimizing target cost gap.
     - Application of learning curve in calculation of target cost of a product.
     - Application of target costing principles in service industry and its problems.
   - Value Analysis
     - Concept of value analysis, what is value, types of values.
   - Functional Analysis

2. **Cost Analysis**
   - Activity Base Costing (ABC)-only theory
   - Activity Base Management (ABM-)only theory
   - Direct Product Profitability (DPP-)only theory
   - Customer Profitability Analysis (CPA)-theoretical and numeric
   - Distribution Channel Profitability- only theory
   - Activity-based profitability analysis comparison of profit per unit if in ABC and Traditional system
   - Pareto analysis -only theory and graphical presentation

3. **Cost Management Techniques**

- Traditional vs Modern Manufacturing Philosophy-only theory
- Just-in-time (JIT)-only theory
- Kaizen Costing -only theory
- Total Quality Management
  - What is quality management
  - Cost of quality
  - Types of cost of quality
- Business Process Re-engineering- only theory

PART - B
PRICING AND PRODUCT DECISIONS

4. **Relevant Costs**
   - Relevant Costs and Revenues
   - Opportunity Cost
   - The Relevant Cost of Materials
   - The Relevant Cost of Labour
   - The Relevant Cost of Overheads
   - Relevant cost of Machinery used in contracts including increase or and decrease in its market value after the contract

5. **Short-term decisions**
   - Presentation guidelines
   - Acceptance/rejection of contracts
   - Minimum pricing or special contract pricing
   - Extra shift decisions and overtime
   - Make or buy decisions
   - Either/or problems
   - Shutdown problems
   - Choosing between options
   - Allocation of joint costs
   - Sell or process further decisions

6. **Risk and uncertainty**
   - Risk and uncertainty in decision making
   - Probability analysis and expected values
   - Data tables
   - The maximin, maximax and minimax regret bases for decision making
   - Using the standard deviation to measure risk
   - Decision trees
   - The value of information
     - Concept of value of information
     - Calculation of value of perfect information
   - Sensitivity analysis in short term decisions
   - Simulation models- only theory

7. **Linear programming: the graphical method**
   - Concept of constraints and bottle necks, conceptual difference of single limiting factor and multiple limiting factors (only theory), Concept of slack and shadow price and their calculation.
   - Graphical method
   - Graphical method using simultaneous equations
   - Simplex method

8. **Linear programming: the simplex method**
   - Principles of the simplex method (Linear programming should only be tested for two products only)

9. **Multi-product breakeven analysis**
   - Drawing a basic breakeven chart
   - Drawing a basic Profit volume chart
   - Breakeven point for multiple products
   - Contribution to sales (C/S) ratio for multiple products
   - Sales/product mix decisions
   - Target profits for multiple products
   - Margin of safety for multiple products
   - Multi-product breakeven chart and profit volume chart
   - Further aspects of breakeven analysis

10. **Pricing decisions and pricing strategies**
    - Demand base pricing
    - Other (Nonfinancial) issues that influence pricing decisions
    - Deriving the demand curve
      - Deriving Demand equation
      - Calculation of optimum profit using demand equation
      - Calculation of profit maximizing price and profit maximizing output using demand curve
    - Full cost pricing
    - Marginal cost-plus/Mark-up pricing
    - Pricing based on mark-up per unit of limiting factor
    - Different Pricing strategies for new products

PART - C
PERFORMANCE MANAGEMENT AND RESPONSIBILITY CENTRE

11. **Performance Evaluation**
    - Financial Performance Indicators
    - Non-Financial Performance Indicators
    - The Balanced Scorecard
    - Benchmarking -only theory
    - Performance evaluation in service industry using building block

12. **Measuring performance in divisionalised businesses**
    - Responsibility Centres
    - Return on Investment (ROI)
    - ROI and decision making
    - Residual Income (RI)
    - Economic Value Added (EVA)

13. **Transfer pricing**
    - Basic principles of transfer pricing
    - General rules
    - Use of market price as a basis for transfer prices
    - Transfer pricing with an imperfect external market
    - Transfer pricing when there is no external market for the transferred item
    - Transfer pricing and changing costs/prices
    - Identifying the optimal transfer price
    - Negotiated transfer prices
    - International transfer pricing