Managerial Accounting - Decision Making Process Cheat Sheet

by Mely via cheatography.com/146378/cs/31652/

Information used for Decision Making

Financial Information	Non-financial Information
Revenues	Effect on employee turnover
Costs	Environment
Profitability	Company's image

Accept/Decline an order at a special price

Criteria: Accept if Contribution Margin is positive

Assumptions:
- Other products not affected by special price
- Other customers don't get special price

No change in fixed costs, only variable cost change

Retain or replace equipment

Criteria: Replace if new asset increases net income

Book value: original cost of asset
Salvage Value: money earned when reselling asset
Useful Life: how long asset is expected to generate revenue

Eliminate/Retain unprofitable business segment

Criteria: drop item if improves net income, retain segment unless FC > lost CM

Need to know if FC are
- Avoidable
- Unavoidable: must be allocated on remaining segments

Allocate limited ressources

Criteria: select product that maximizes net income

Short term decision: focus on product with greatest CM unit
Long term decision: can constraint be reduced/eliminated
- Change CM unit
- Remove limitations on ressources

Incremental Analysis Approach

Maximize net income

Identify expenses that vary with decisions

Key Cost Concepts

Relevant costs	Opportunity Costs	Sunk Costs
Cost in future		*Cost in past*

Make/buy components or finished products

Criteria: Outsource if cost saving is positive

Advantages:
- Frees up capacity for other use
- Shifts production risks to the supplier

Disadvantages:
- Potential loss of quality control
- Hard to move back insource

Sell product or Process further

Criteria: Process further until revenue < costs

Produce multiple product simultaneously from single raw material
- Some products can be sold as is
- Some products can be processed further
- Products identifiable from each other at split-off point

Theory of Constraints

Used to identify and manage constraints to achieve goals

Requires identifying and constant attempts to reduce/eliminate constraint

Sponsored by **Readable.com**
Measure your website readability!
https://readable.com