

### 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 resources

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 resources

### Incremental Analysis Approach

Maximize net income

Identify expenses that vary with decisions

### Key Cost Concepts

Relevant costs	Opportunity Costs	Sunk Costs
<i>Cost in future</i>		<i>Cost in past</i>

### 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



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