

Introduction to Managerial Accounting

This session we will really have to do a 360 degree turn! After studying accounting for this long, we now have to shift gears into a new branch. This will be to managerial (or cost) accounting. The other topics we have covered thus far are under the umbrella of Financial Accounting. You will need to know both branches for all future accounting classes, all professional examinations in accounting and for the workplace. So what are the differences?

Web Site Alert:

Here is a humorous video to highlight the differences:

<http://www.youtube.com/watch?v=aVcs5Cgsnfl>

Costs

Pay special attention to all mention of costs. Managerial/Cost Accounting is all about the costs! There are direct costs which are those that can be easily traced to the product that you are producing. There are indirect costs, which of course are those that are not easily traceable. We have to allocate those indirect costs in some way to the product so that we can know our total costs.

The better we get at determining the costs involved, the more successful our business will be, right? If we decide to make beaded bracelets and we do not analyze the costs involved, we might find that it will cost more to make one than anyone would ever pay to buy one from you! That is just one example. I'm sure you can think of others now.

There are fixed and variable costs. Fixed costs are certain costs that will remain fixed regardless of how many tee shirts we produce. Variable costs are those costs that change based on how much we produce.

Manufacturing Overhead

Another key term is that of manufacturing overhead. These are the indirect costs that are incurred in making the product. By indirect, I mean that it is difficult to trace that type of cost back to the product. This can be the rent on the factory, the utilities, depreciation and more. However, we need to be aware of these indirect costs since they are REAL costs and impact our decision making.

*****Web Site Alert*****

Here is a great web site with information about overhead. We will be working with this term all semester!

<http://member.accountingcoach.com/explanations/PDF/ManufacturingOverhead.pdf>

Direct/ Indirect Costs

Now we see that there are direct and indirect costs. Direct costs are those that are easily traceable to a specific event or product that you make. Indirect are just the opposite! If you are unable to determine how many safety pins were used or lost while making the tee shirts, you could not really expense those safety pins to specific shirts! Therefore, those are indirect costs.
