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Managerial decision in cost accounting

- The Value Chain describes a set of activities that transforms raw materials and resources into the goods and services end users purchase and consume.
  - Value added activities
  - Non value added activities
The Value change components

Research & Development  Design  Purchasing

Production

Marketing  Distribution  Customer Service

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Accounting System

Financial accounting → Reports → Financial position and income

Cost accounting → Reports → Information about costs
Managerial Decision

- Individuals make decisions.
- Decisions determine the performance of the organization.
- Managers use information from the accounting system to make decisions.
- Owners evaluate organizational and managerial performance with accounting information.
Cost Classifications

Cost can be classified:
- Relevance
- Behaviour
Cost classification by Relevance

- Relevant
  - If cost influence a decision
- Irrelevant
  - If cost do not influence a decision

- Cost that are applicable to a particular decision
- Cost that are avoidable
Cost classification by Behaviour

cost behaviour refers to how a cost will react to changes in the level of business activity

- Fixed cost
- Variable cost
- Mixed cost