ACCA

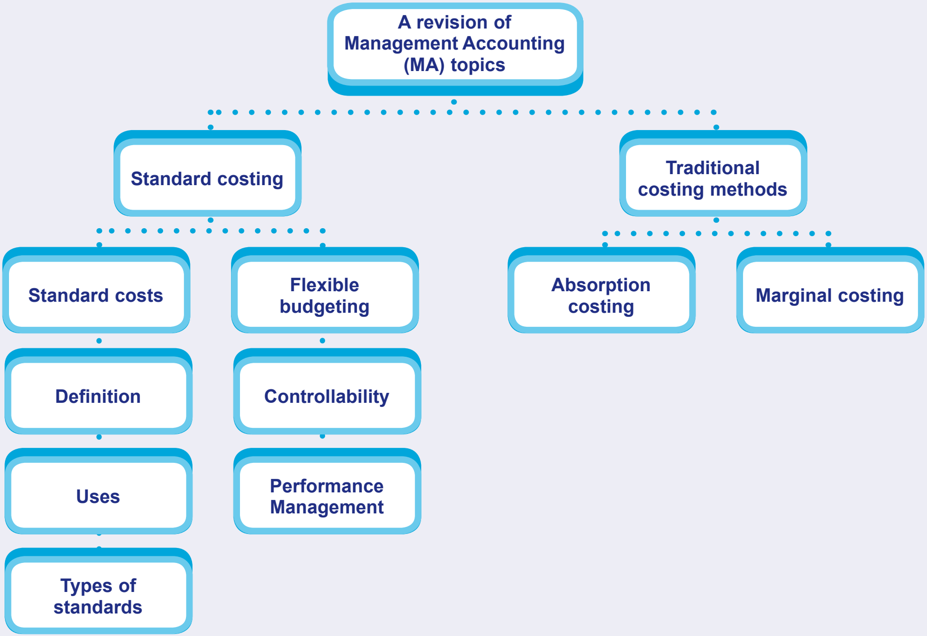
Performance Management (PM)

Pocket Notes

KAPLAN PUBLISHING

Contents

A revision of Management Accounting (MA) topics



Cost definitions examples

Standard	Description
Ideal standard	• Ideal operating conditions • Highlights cost of inefficiencies
Attainable standard	• Efficient operating conditions • Includes allowance for wastage
Current standard	• Current operating conditions • No incentive to improve efficiency
Basic standard	• Set for the long term • Highlights changes in costs

Uses of standard costing

- performance management
- inventory valuation
- setting selling prices
- budgeting
- management by exception

Performance management information systems

Information requirements at different levels.

STRATEGIC PLANNING

Information predominantly environmental. Information imprecise and speculative. Long-term forecasts. Main output targets and plans. Ad hoc control system. Use decision making system such as an EIS.

MANAGEMENT CONTROL

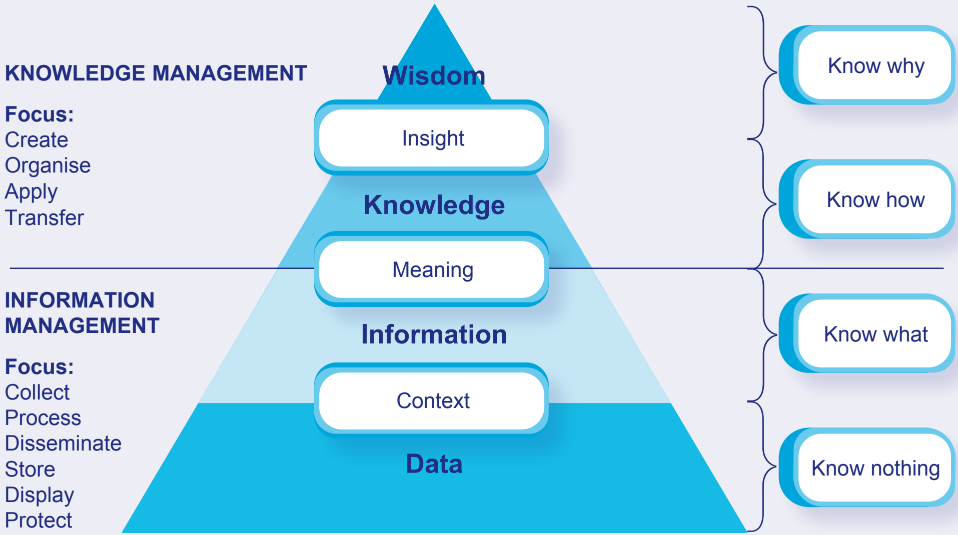
Information concerned with efficiency and effective use of resources in the whole organisation. May involve responsibility centres. Includes measures of productivity, budget performance, labour and capacity utilisation. Use decision making system such as a DSS.

OPERATIONAL CONTROL

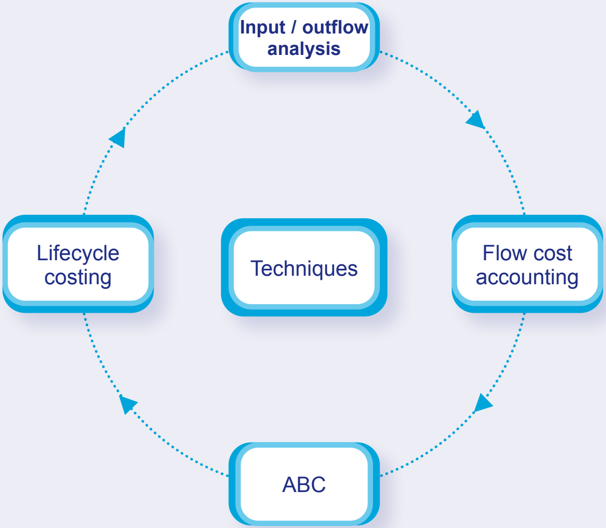
Short-term control information.
Very detailed.
May be in terms of quantity, rates and times rather than finance. Use decision making system such as a TPS.

The big data pyramid

A model representing structural and functional relationships between data, information, knowledge, and wisdom:

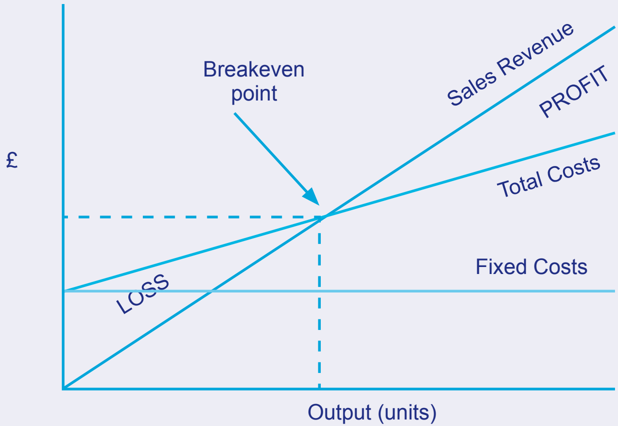


Environmental management accounting techniques



Basic breakeven chart

Breakeven analysis – break-even chart

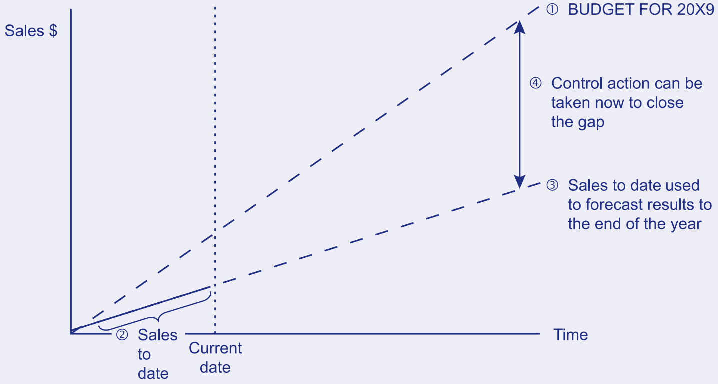


Breakeven point:
the point where
total costs = total sales revenue
and
Where there is **neither a profit or loss**

The diagram is known as the break-even chart.

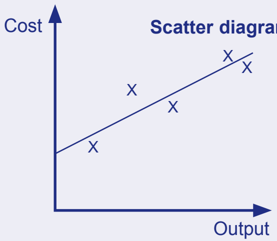
Feed forward control

- Feed-forward control is defined as the 'forecasting of differences between actual and planned outcomes and the implementation of actions before the event, to avoid such differences.
- In simpler terms, feedforward control is where a problem is identified and corrective action taken, before the problem occurs.
- An example would be using a cash-flow budget to forecast a funding problem and as a result arranging a higher overdraft well in advance of the problem.



High-low

- Used to determine a linear relationship between two variables – usually to split costs into fixed and variable elements.



- Step 1: Select the highest and lowest activity levels, and their costs.
- Step 2: Find the variable cost/unit.

$$\text{Variable cost/unit} = \frac{\text{Cost at high level activity} - \text{Cost at low level activity}}{\text{High level of activity} - \text{Low level of activity}}$$

- Step 3: Find the fixed cost, using either the high or low activity level.

  Fixed cost = Total cost at activity level – Total variable cost.

- Step 4: Use the variable and fixed cost to forecast the total cost for a specified level of activity.