



Al Farabi University



- Essence of cost management and its role in company management
- Management Department
- “Cost Management” Course
- Dr., professor Adambekova A.A.

*Adambekova
Ainagul*



lecture questions

- Management accounting: content and features
- Cost Management: Contents and Basics
- The role of cost management in company management

*Adambekova
Ainagul*



Cost Management: Contents and Basics

- Cost management is the process of targeted formation of costs by their types and places of their formation with constant monitoring and stimulation of their reduction.
- It is an important management function of any enterprise.



The cost management system includes:

search and identification of resource saving factors;

rationing of resource costs;

planning resource costs by type;

accounting and analysis of resource costs;

stimulating resource savings and reducing their consumption.

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Definitions

- Costs are the amount of resources for a certain period used for the production and sale of products, which are transformed into the cost of products, works and services.
- Costs are the valuation of production resources consumed in the process of production and sales of products.



Basic cost management methods



Standart-costing



Direct-costing



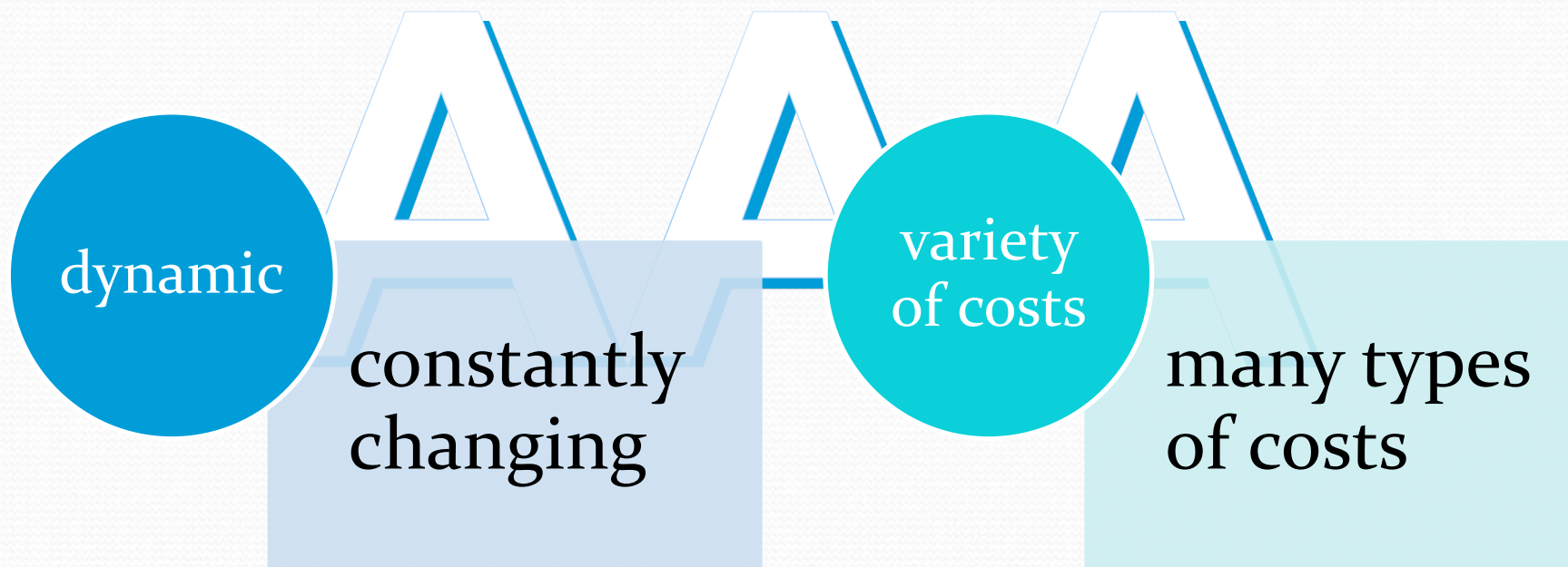
Target-costing



ABC method



Features of costs as an object of management



The goals of cost management

- The goals of cost management are to find the amount of costs required to achieve a certain result in the most economical way:



Who controls costs?



CEO

AAA



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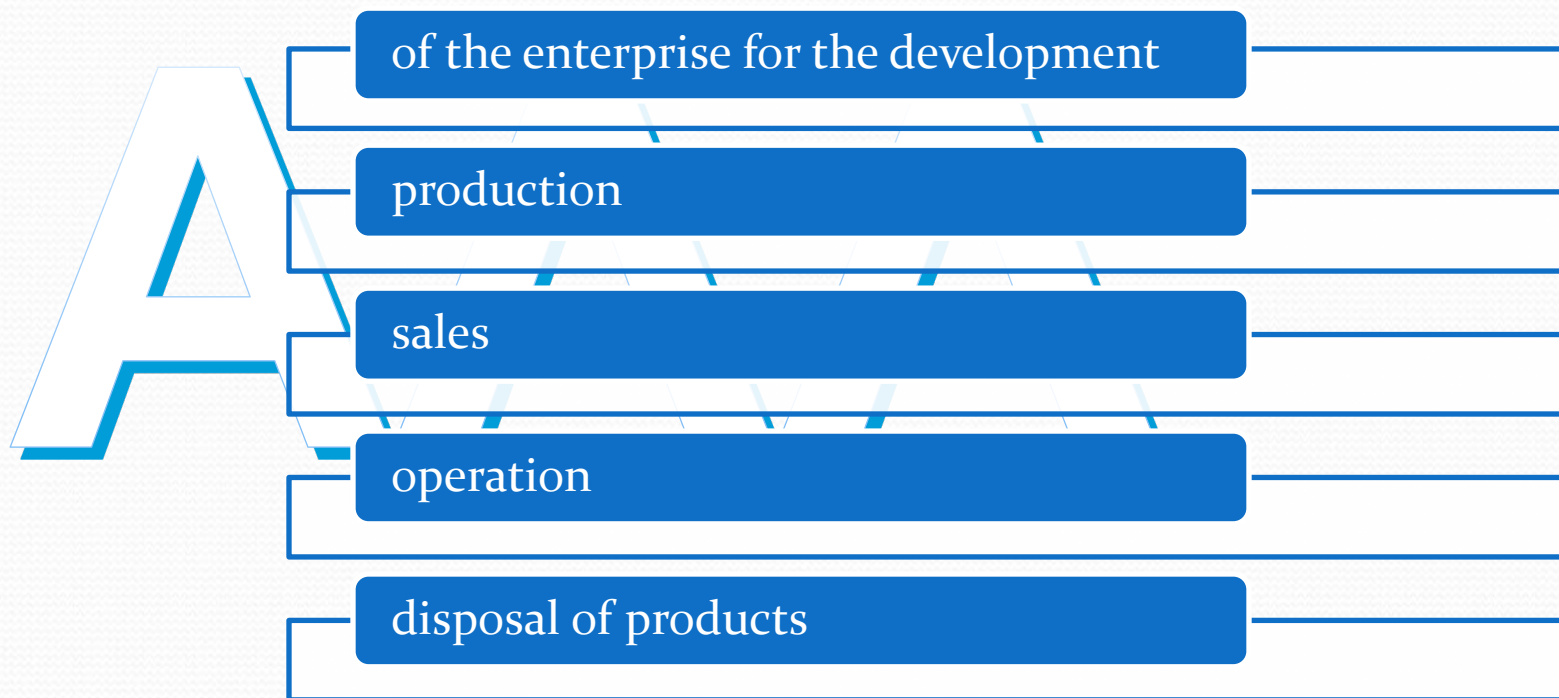


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The object of cost management

- The object of cost management is the actual costs :



- and the process of their formation and optimization.



The role of cost management in company management

- The main task of cost management is their optimization, which makes it possible to obtain the planned profit, which is the basis for the effective management of the enterprise.
- Each enterprise has a goal - to achieve the effect of economic activity.
- «To make a lot of money is courage, to save it is wisdom, and to spend it skillfully is art».
- Berthold Auerbach (German writer and poet)



Accounting Discipline Overview

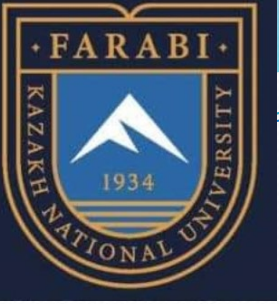
- Managerial accounting—measures, analyzes, and reports financial and nonfinancial information to help managers make decisions to fulfill organizational goals. Managerial accounting need not be GAAP, IFRS compliant.
- Financial accounting—focus on reporting to external users including investors, creditors, and governmental agencies. Financial statements must be based on GAAP, IFRS.

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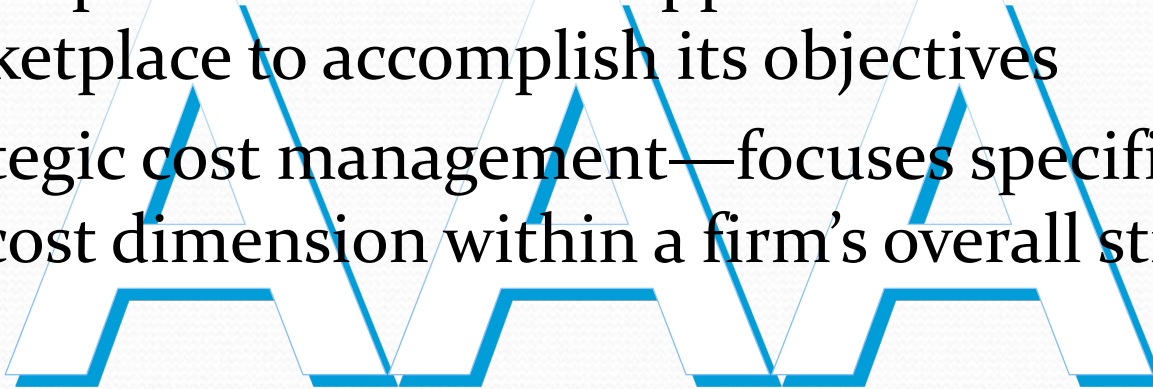
Major Differences Between Financial and Managerial Accounting

	Managerial Accounting	Financial Accounting
Purpose	Decision making	Communicate financial position to outsiders
Primary Users	Internal managers	External users
Focus/Emphasis	Future-oriented	Past-oriented
Rules	Do not have to follow GAAP; cost vs. benefit	GAAP compliant; CPA audited
Time Span	Ultra current to very long time horizons	Historical monthly, quarterly reports
Behavioral Issues	Designed to influence employee behavior	Indirect effects on employee behavior



Strategy and Management Accounting

- Strategy—specifies how an organization matches its own capabilities with the opportunities in the marketplace to accomplish its objectives
- Strategic cost management—focuses specifically on the cost dimension within a firm's overall strategy

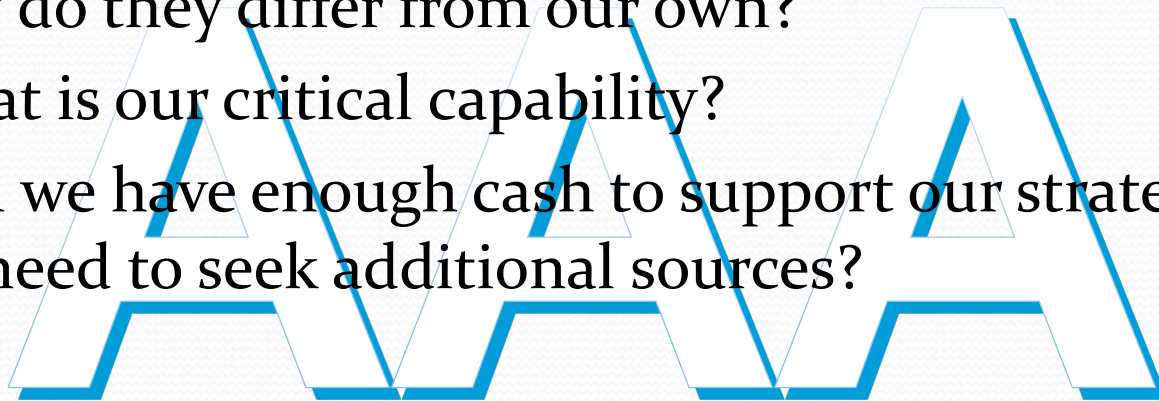


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Strategy and Management Accounting

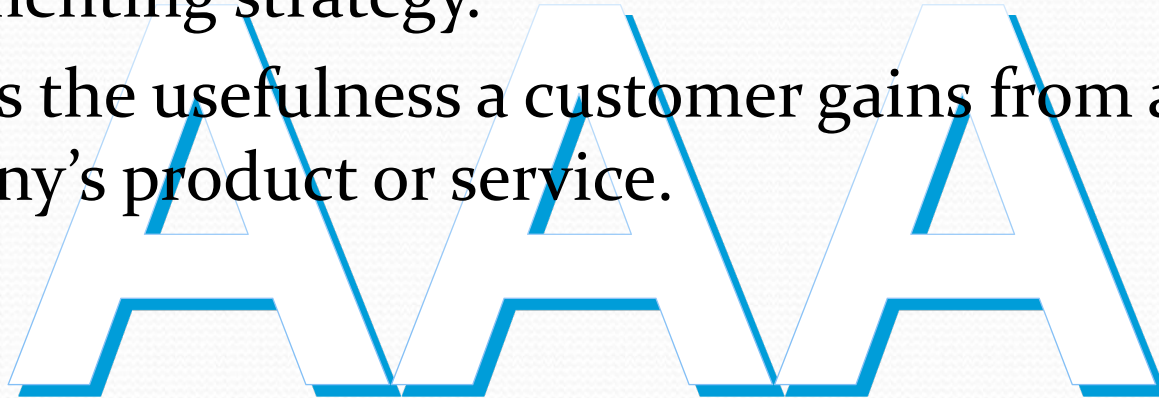
- Management accounting, and cost management helps answer important questions such as:
 - Who are our most important customers, and how do we deliver value to them?
 - What substitute products exist in the marketplace, and how do they differ from our own?
 - What is our critical capability?
 - Will we have enough cash to support our strategy or will we need to seek additional sources?





Management Accounting and Value

- Creating value is an important part of planning and implementing strategy.
- Value is the usefulness a customer gains from a company's product or service.





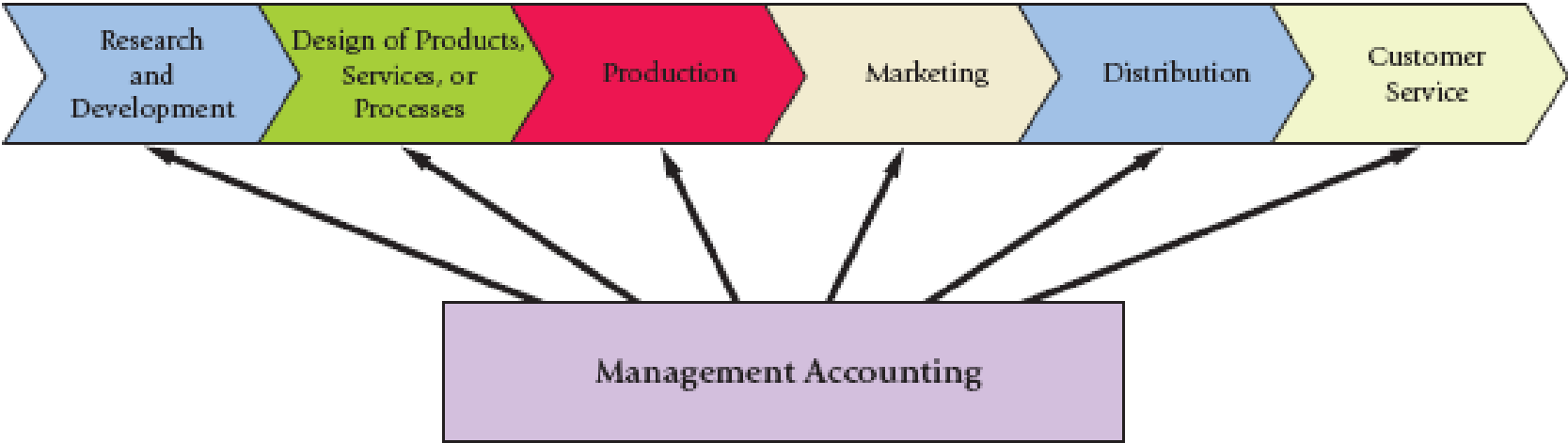
Management Accounting and Value

- Value chain is the sequence of business functions in which customer usefulness is added to products or services.
- The Value chain consists of:
 1. Research & development
 2. Design
 3. Production
 4. Marketing
 5. Distribution
 6. Customer service



The Value Chain Illustrated

Exhibit 1-2 Managers in Different Parts of the Value Chain



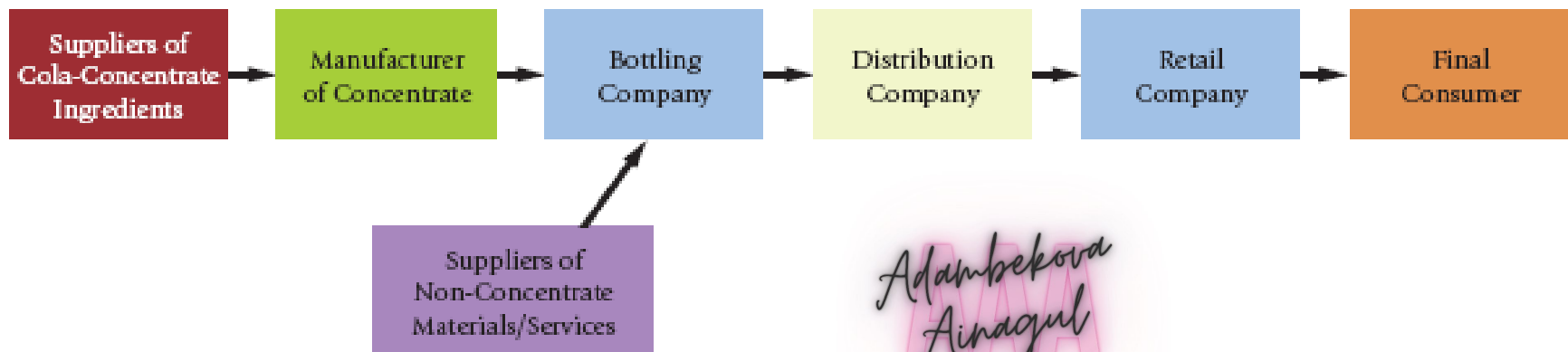
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A Value Chain Implementation

Exhibit 1-3

Supply Chain for a Cola Bottling Company



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Key Success Factors

- The dimensions of performance that customers expect, and that are key to the success of a company include:
 - Cost and efficiency
 - Quality
 - Time
 - Innovation



Planning and Control Systems

- Planning selects goals, predicts results, decides how to attain goals, and communicates this to the organization.
 - Budget—the most important planning tool
- Control takes actions that implement the planning decision, decides how to evaluate performance, and provides feedback to the organization.



A Five-Step Decision Making Process in Planning and Control

1. Identify the problem and uncertainties.
2. Obtain information.
3. Make predictions about the future.
4. Make decisions by choosing between alternatives.
5. Implement the decision, evaluate performance, and learn.

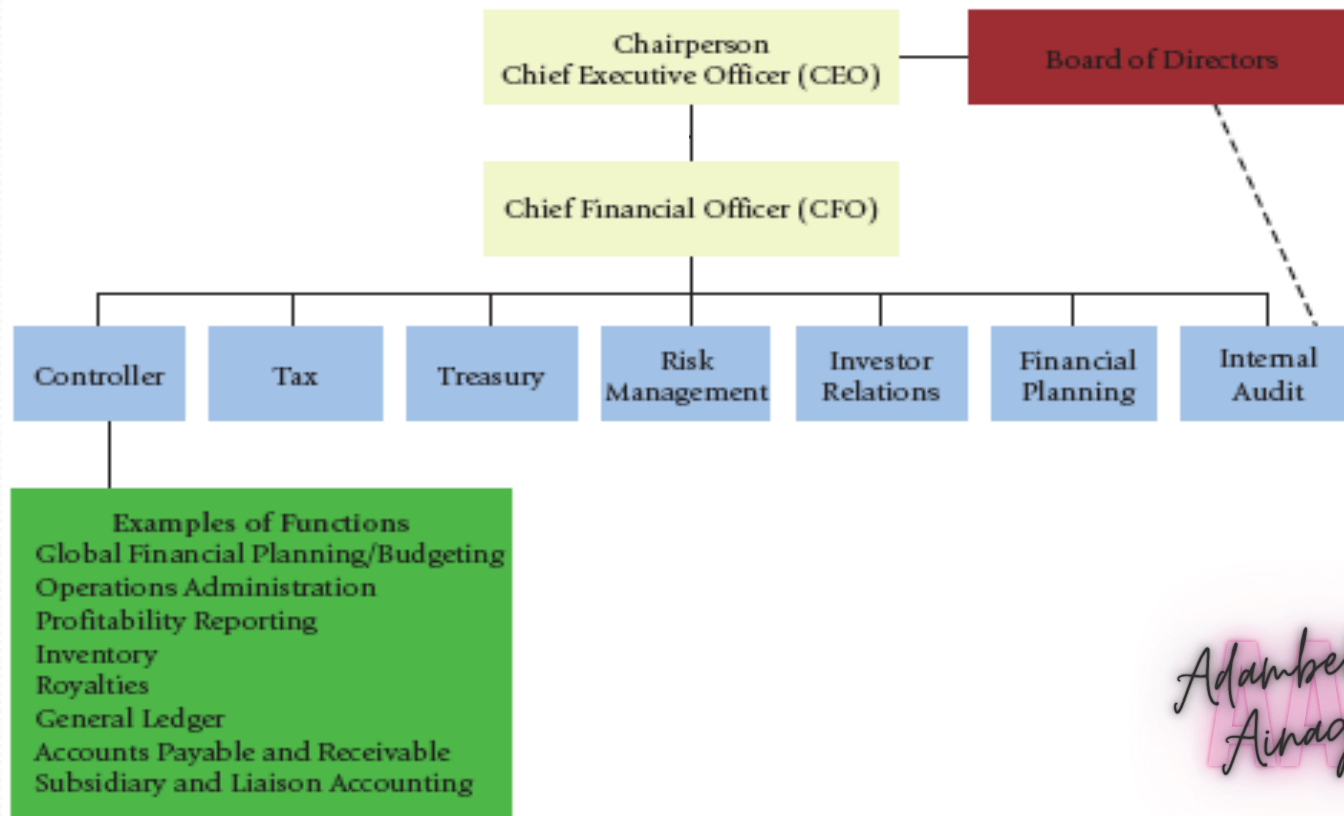


Management Accounting Guidelines

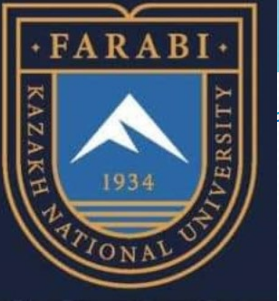
- Cost–benefit approach is commonly used: benefits generally must exceed costs as a basic decision rule.
- Behavioral and technical considerations—people are involved in decisions, not just dollars and cents.
- Managers use alternative ways to compute costs in different decision-making situations.



A Typical Organizational Structure and the Management Accountant



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Professional Ethics

- The four standards of ethical conduct for management accountants as advanced by the Institute of Management Accountants:
 - Competence
 - Confidentiality
 - Integrity
 - Objectivity