Course 8600: Activity-Based Costing Workshop for Manufacturers (4 days)

Course introduction

Many small and mid-sized manufacturers forego the benefits of accurate and relevant cost information because they fear that the time and costs required to implement a new, more sophisticated costing system, or convert and old one, are beyond their firm's limited resources. That fear may be well-founded, but fortunately, small or mid-sized manufacturers do not need to embark on the implementation of a new day-to-day costing system to reap the benefits that accrue to organization's that base their decisions and actions on accurate and relevant cost information.

The tool required by these manufacturers is not a complex costing system. Instead, it is a structurally valid and economically sound cost model of the company's business – a model that enables the manufacturer to determine the different measures of cost required to support the many different types of decisions its management must make. The development of such a model is well within the resource constraints of any small or mid-sized firm.

This workshop is designed to facilitate a small to mid-sized manufacturer through the creation of a conceptually sound, structurally valid cost model of its business and then translate that conceptually model into Excel-based costing tools that will enable the manufacturer to: 1) accurately measure the cost of its products and customers, 2) measure and manage the cost of its key processes, and 3) perform quick and accurate "what if" analyses to support the wide variety of management decisions that require incremental cost information. These Excel-based tools include a cost accumulation and distribution model of the business as well as templates for assigning costs to jobs, products and customers.

During this workshop you will:

- Use the cause-and-effect "lens" of activity-based costing to design a cost model that accurately reflects the fundamental economics that underlie your manufacturing firm
- Accumulate a "toolbox" of costing concepts, tools and techniques that will help to incorporate seemingly complex issues into your costing model with a minimum of difficulty
- Incorporate your cost model's design into an Excel-based predictive cost model that can be used to perform incremental cost analyses, measure the cost of key processes and develop rates that can be used to assign costs to individual jobs, products, services, customers, etc.
- Create Excel-based templates that will use your model's costing rates to accurately assign costs to your company's jobs, products, services, customers, markets, etc.

![IASeminars — Knowledge at work]

- Practice using your model to support a variety of management decisions
- Learn techniques for gathering your company's detailed information for populating your model and templates after your return home

Topics

- The taxonomy of management accounting
- The building blocks of cost models
  - Structurally valid cost models
  - Accurate economic – not just accounting – cost information
  - Accurate, but not necessarily precise, operational data
- Structurally valid cost models
  - The importance of models in decision making
  - Oxenfeldt's rule
  - Costing's causality principle
  - Designing cost models that match economic reality
  - Designing cost models that both assign past costs and both project and assign future costs
  - Special costing tools and techniques
  - Identifying cost drivers and assignment divisors
- Data accuracy and relevance
  - Precision vs. accuracy
  - Financial costs vs. economic costs
  - The periodicity problem
  - Depreciation expense vs. long-term capital preservation
  - Cost of capital
  - Cost behavior – the danger of thinking "fixed" vs. "variable" classifications
  - Measuring cost drivers and divisors
  - Time measures
  - Event and transaction measures – weighted and unweighted
  - Input and output measures
  - Labor and equipment routing and bills of material
- Designing a cost model that fits your manufacturing firm
  - Material support activities

- Value-adding and other direct activities
- Event and transaction activities
- Customer/market support activities
- Product line support activities
- General and administrative activities

- The Excel-based cost accumulation and distribution model
  - Basic structure of the model
  - Modeling exercise – Small Time Manufacturing
  - Loading your company's structure into the model
  - Populating your model with test data
  - Using the model to support decisions

- Creating Excel-based job/product costing templates
  - Basic structure of the template
  - Tracing the job/products route through business activities
  - Applying activity rates

- Creating Excel-based customer costing templates
  - Basic structure of the template
  - Applying activity rates

- Gathering your company's data to populate the model
  - Estimates vs. precise measurement
  - Solving for "B" to create consumption factors
  - Using the general ledger to model reconciliation worksheet

Teaching method

- Group live instruction, discussion cases, examples, group work, open discussions
- Hands-on model and template building using Excel
- Interactive participation is encouraged
- All participants receive a comprehensive binder containing copies of the presentation slides, handouts and other course materials
- All participants will also receive copies of Douglas Hicks's books "Activity-Based Costing: Making it Work at Small and Mid-Sized Business" and
- "Understanding the Cost Accumulation and Distribution Model"

Prerequisites

An understanding of basic management accounting principles and practices, familiarity with Excel, and working knowledge of your company's operations. No advance preparation is required for this course although it will be helpful bring along a layout of your manufacturing facility, your company's organization chart and a listing of the costs incurred by your organization.

Course benefits

- Learn how to design a predictive cost model of your small or mid-sized manufacturing firm that reflects economic reality
- Develop an Excel-based predictive model that can be populated with your company's data to become a powerful decision support tool
- Develop Excel-based job/product and customer costing templates to accurate measure the costs of your company's jobs/products and customers

Who should attend?

- CFOs, Controllers and Cost Accountants
- Cost Estimators, Budget Analysts
- Industrial Engineers, Manufacturing Engineers
- Financial Analysts, Systems Analysts

CPE / CPD Accreditation

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Field of study: Accounting

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In House

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