

Course 8502: A Practical Approach to Activity Based Costing (3 days)

Course introduction

Do you know who your most profitable customers are? Do you know the true cost of each of your products? Does your pricing reflect the full cost of serving the customer? What drives cost and profitability in your business?

This information is vital, especially as you build your business and marketing strategy, but rarely available. The problem is that the information from your accounting systems is designed for external reporting and to meet tax requirements. There's a big difference between accounting information and the true economics of the business. Activity based costing fills this gap.

In this 3 day course we will give you tools and techniques to:

- ◆ Determine the true profitability of each of your customers
- ◆ Segment customers and markets
- ◆ Understand the true costs of your products and services
- ◆ Make better pricing decisions
- ◆ Eliminate costly and non-value adding activities
- ◆ Effectively challenge your operating costs

The course combines the final day of our popular “empowering the management accountant to be a trusted business advisor” which introduces the concepts of activity based costing for the small and medium business with a two-day practical workshop teaching how to build MS Excel activity based costing models.

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 organisation
- ◆ 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.

- ◆ 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

- ◆ Modelling product costs, customer profitability and customer value
 - ◆ The importance of models in decision making
 - ◆ Oxenfeldt's rule
 - ◆ The causality principle – Understanding what drives cost
 - ◆ Designing cost models that match economic reality
 - ◆ Designing cost models that both assign and predict costs
 - ◆ Special costing tools and techniques
- ◆ 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 behaviour “direct” vs. “indirect”; “fixed” vs. “variable”
- ◆ Planning and decision support
 - ◆ Pricing and quoting
 - ◆ Decisions covering multiple periods
 - ◆ Make / buy decisions
 - ◆ Outsourcing decisions
 - ◆ On shoring / off shoring decisions
 - ◆ Capital expenditure decisions
 - ◆ Target costing
 - ◆ Discrete event simulation
 - ◆ Supply chain management
 - ◆ Product mix management
 - ◆ Manpower planning
- ◆ Designing a cost model that fits your firm

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

- ◆ The Excel-based cost model
 - ◆ Basic structure of the model
 - ◆ Populating your model with test data
 - ◆ Using the model to support decisions
 - ◆ Creating Excel-based job/product costing templates
 - ◆ Creating Excel-based customer costing templates

- ◆ Gathering your company's data to populate the model
 - ◆ Estimates vs. precise measurement
 - ◆ Using the general ledger to model reconciliation worksheet
 - ◆ Gathering cost driver data

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

Prerequisites

Understanding of basic management accounting principles and practices and familiarity with Excel. No advance preparation is required for this course, but a working knowledge of your company's operations will be necessary. It will be helpful bring along a layout of your manufacturing facility or process maps of the services you deliver, 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 business 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 accurately 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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