Paper- Management Accounting

course-B.COM(P),6th semester, Section C

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Decision making

Lecture 2

Marginal costing vs differential costing

Similarities

. Both the differential cost analysis and marginal costing are the technique of cost analysis and presentation.

. Both the techniques are used by the management in formulating policies and making decisions.

.Differential cost and marginal cost are same when fixed cost do not change with the change in the output.

Dissimilarities

. Fixed cost excluded from cost whereas differential cost analysis take into consideration change in fixed cost due to change in output.

. managerial cost may be incorporated in the accounting system When as differential course do not find any place in the accounting records of a concern. Differential coast are determine separately from the analysis of accounting record.

. Differential Cost Analysis may be made both in absorption costing as well as managerial costing.

.Marginal costing, PV ratio, contribution per unit of limiting factor are the mean yardsticks for evaluating of managerial decisions in costing technique whereas differential cost are compared with incremental cost decremental revenue for evaluating managerial decisions.

Decision making situations

1. fixation of selling price

2. Exploring New market

3. Make or buy decision

4. Product mix decision

5. Plant shutdown decision

1.Fixation of selling price

The pricing decision for the product depends number of factors and the cost of product. Some of the Factors influencing the pricing decisions are as follows:

1. Cost of product

2. Demand and supply of the product in the market

3. Competition in the industry and quality of product

4. Customers for equality versus prices.

5. Regulatory provision etc.

The pricing decision will be taken for two time period-

Long term

Short term

In long term the full cost is recovered and the price of product should recover all the cost fixed as well as variable, along with the profit margin.

In short term the product may have to be sold at below the total cost but above the incremental cost of the product.

2. Product mix decisions

Product mix refers to the proportion in which the different product are produced. This relates to a situation the phone has limited resources but the different product may be produced using the same resources and facilities. The firm has to select the most profitable product mix use of given limited resources. This diffusion is taken after identify key factor in the business.

Key factor is the factor in the activity which at a particular point of time aur over a period will limit the volume of output. thus key factor limits the profitability of the business. Materials, skill labour, production capacity, financial resources etc. Can be the Limiting factors in any business.