

Managerial Accounting



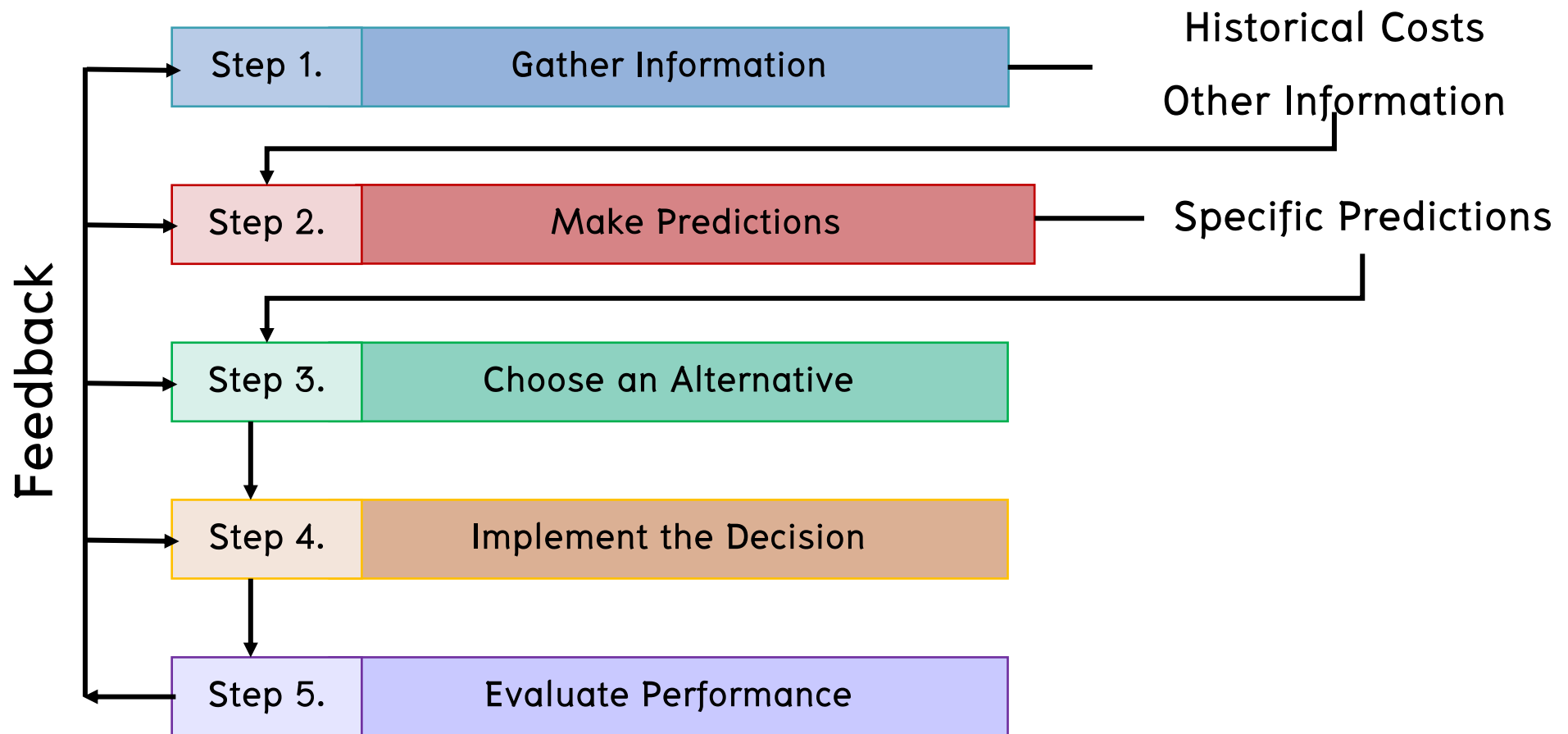
Chapter 4

Decision Making

Information and the Decision Process

A decision model is a formal method for making a choice, often involving quantitative and qualitative analysis.

Five-Step Decision Process



The Meaning of Relevance

Relevant costs and relevant revenues are expected future costs and revenues that differ among alternative courses of action.

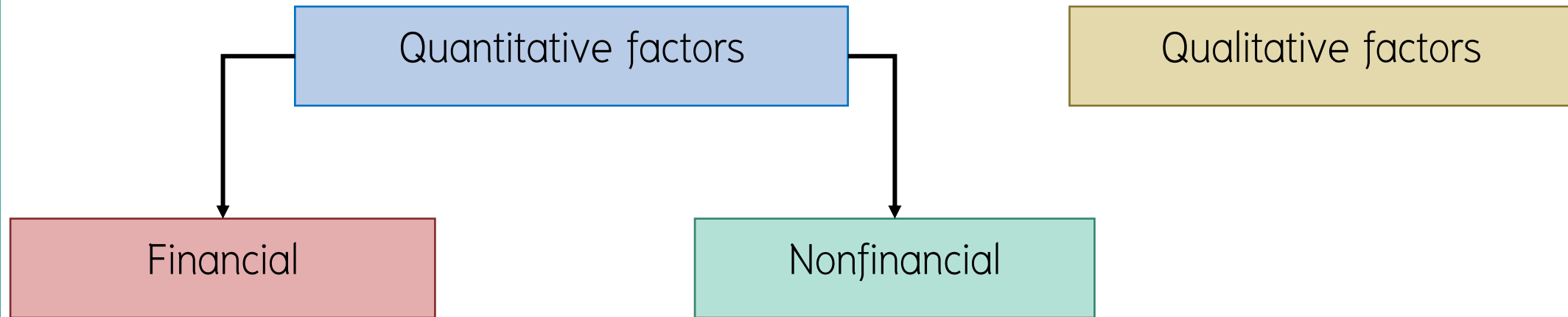
Historical costs

Sunk costs

Differential income

Differential costs

Quantitative and Qualitative Relevant Information



Two Potential Problems in Relevant–Cost Analysis

1

Incorrect general
assumptions:

All variable costs
are relevant.

All fixed costs
are irrelevant.

2

Misleading
unit–cost data:

Include
irrelevant costs.

Use same unit costs
at different output levels.

Decision Making Problems

1. One-Time-Only Special Order
2. Outsourcing versus Insourcing
3. Make-or-Buy Decisions
4. Opportunity Costs, Outsourcing, and Constraints
5. Product-Mix Decisions Under Capacity Constraints
6. Profitability, Activity-Based Costing, and Relevant Costs
7. Equipment-Replacement

The End