



Cost analysis for management decisions

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Chapter preview

Many management decisions involve both short-term and long-term implications, but for the purposes of analysis it is helpful to examine these separately. Short-term decisions are mainly concerned with making the most cost-effective and profitable use of existing resources, while long-term decisions typically revolve around the best use of new capital investment. This chapter concentrates on the understanding and analysis of accounting information which is most relevant to short-term decisions on the best choice of inputs, volumes of outputs and pricing.

We will examine the decision-relevance of different types of cost information, in particular absorption costs, attributable costs, activity-based costs and differential costs. Methods of cost estimation are illustrated, and cost-volume-profit and contribution analysis are explained. Even though final decisions on production, marketing and pricing must be taken in the light of commercial strategy and market conditions, costing information can provide helpful guidance on product mix, volume and pricing.