[Name of the Writer]

[Name of Instructor]

[Finance, Accounting, and Banking]

[Date]

Cost Accounting

**Decision Making in Cost Accounting**

When it comes to accounting, it is simply a process that tends to identify, measure, and communicate economic information regarding entities. The aim of accounting lies under decision making and informed judgments. The concern of managerial accounting is through the utilization of financial and economic statistics for planning and controlling the actions one or more entitites (Collier et al., 2015). Managerial accounting undoubtedly supports management during the process of decision making. Similarly, when it comes to cost accounting, it has been observed that a shortage of understanding about finance and accounting procedure by the business manager is considered to be an inducement for an unethical employee (Collier et al., 2015).

There are certain areas in which ethics tends to prove itself quite helpful in management. Ethics helps to maintain efficacy and appropriate professional relationships. Apart from this, it determines the nominal price of its products as well. One thing that must be taken into consideration is the fact that ethics in management helps to provide true and factual information to its users. There are a number of cost concepts used in decision making. When it comes to the marginal cost, it is considered to be the total of variable costs. Marginal cost is based on the difference between the variable and fixed costs. The matter of fact is that fixed costs are ignored, and what left is the variable costs that are only considered to determine the costs of products.

When it comes to the Out of Pocket Costs, it is simply some part of cost which is seen involving payment to outsiders. Such costs are undoubtedly relevant for price fixation when a decision is required to buy. The differential costs are the change in costs because of certain changes in technology, pattern or level of activity (Mouritsen et al., 2016). In case if even a minor change is proposed at the existing level, it results in the decrease or increase in total cost as a result. In case if there is an increase in the cost due to change, it will be particularly known as an incremental cost. However, if a decrease in cost results due to a decrease in output then the difference is not incremental rather decremental.

Due to complete abandonment of a plant, there may be result in irrecoverable cost which in other words is known as a sunk cost. The matter of fact is that such type costs are historical and are irrelevant for decision-making, and are not affected due to decrease or increase in volume. In order to take managerial decisions along with future implication, there is no doubt that a sunk cost is not a relevant cost. It must be taken into consideration that sunk costs are not affected due to decrease or increase in the volume. On the other hand, the opportunity cost is considered to be an advantage, in measurable terms. Opportunity cost refers to the value of sacrifice made. Along with this, it refers to the benefit of opportunity foregone.

There is no doubt that a number of business decisions tend to require a firm knowledge of multiple cost concepts. The matter of fact is that different categories of costs have their own unique characteristics (Nielsen et al., 2015). Similarly, when it comes to reviewing a business case for determining which path is correct to take, it is considered quite useful to understand different cost concepts. The reason for that is quite simple as by learning such concepts it becomes easy for a firm to take correct decision, and avoid future mishaps that may occur due to wrong decisions or following a bad plan without guidance for experts.

Work Cited

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