

7 COSTING

7.1 Vocabulary

compound nouns • fixed phrases

A Study the words in box a.

- Match nouns in column 1 with nouns in column 2 to make compound nouns.
- Which word in each phrase has the strongest stress?

B Study the phrases in box b.

- Complete each phrase with one word.
- Is each phrase followed by:
 - a noun (including gerund)?
 - subject + verb?
 - an infinitive?
- What is each phrase used for?

C Look at the flowchart on the opposite page showing the process for posting material costs to job cards. What happens at each stage?

D Read extracts A–F on the right. They are from a memo explaining the process of materials costing. Complete each sentence with a phrase from box b.

- E** Look at the Gantt chart on the opposite page. What does it show?
- F** Read the text under the Gantt chart. Match the phrases in box c with the **highlighted** phrases in the handout.
- G** Look at Table 1 on page 105. It shows the costs of file storage for the Pinkton Computer Company using their present methods. Complete this Pinkton Computer Company memo using phrases from boxes b and c.

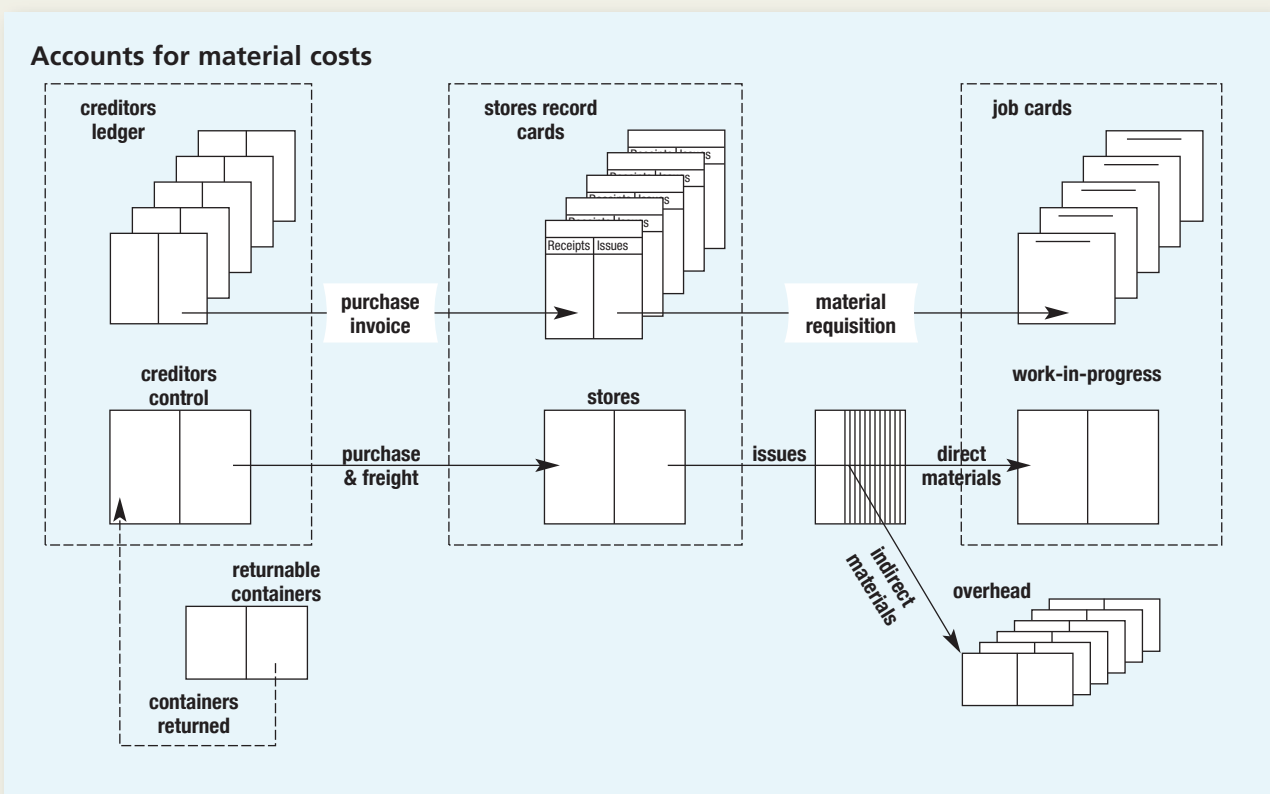
My recommendation is that we reconsider _____ of absorption costing within the company. At present, our overhead allocation of costs is _____ full-time equivalents (FTEs). My concern is that _____ of file storage, for example, _____ in Table 1, the costings are ambiguous. _____ that although the size and volumes are different, _____ the use of FTEs, the total costs are shown as the same, which is clearly incorrect. There are _____ different methods we can consider, but in _____, we must have accurate product costs.

a	1	2
cost	costing	job
machine	materials	account
purchase	stores	card
target	unit	cost
		costing
		data
		hours
		invoice
		method
		requisition

b as shown ... as well ... in addition ...
in order ... in such a way ... in the case ...
known ... the end ... the use ...

- A** The overall balance _____ in the subsidiary records will equal the balance on the control account.
- B** _____ to obtain any details relating to figures in the main accounts, we can refer to the subsidiary records.
- C** _____ of each of the three main ledger accounts is to act as a control account for a particular set of subsidiary records – the creditors control account controlling the creditors ledger, the stores account controlling the stores record cards and the work-in-progress account controlling the job cards.
- D** The document used to draw material from the stores is _____ as the material requisition.
- E** The lower half of the flowchart shows the ledger accounts involved, while the upper half shows the parallel subsidiary records and accounting procedures needed _____ of individual transactions.
- F** The material analysis is the record of materials drawn from stores to job numbers and overhead accounts. It ensures that all items issued are charged where appropriate, _____ as ensuring none are overlooked.

c a number of a variety of
at the same time deal with
based on take into account
from the point of view of
the beginning of the development of



Gantt chart: Choosing a new costing system

	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7
Create flowchart of the process to be costed							
Research and review appropriate costing methods							
Draw up alternative costing methods							
Evaluation of alternative costing methods							
Approval of best costing method							
Implement new system							

A Gantt chart is a useful planning tool, especially for project management. The chart makes it easy to handle a situation where different stages overlap. For example, this chart shows the evolution of a costing method best suited to a new process. The start of the process involves several team members mapping the process to be costed. Then, using the resources available, available costing methods are researched and investigated. Simultaneously, the alternative methods are evaluated by the company directors, who use various criteria to choose the best costing alternative.

7.2 Listening

fixed phrases • sequencing information in sentences

A You are going to hear the lecture outlined on the slide. Write four questions you would like answered.

B Listen to Part 1 of the lecture.

- 1 What is the lecturer going to talk about today? Write *yes*, *no* or *not mentioned*.
 - absorption costing _____
 - marginal costing _____
 - process costing _____
 - target costing _____
 - problems with poor costing _____
 - theory of constraints _____

2 Why are accurate product costs important?

C Listen to Part 2 of the lecture.

- 1 Make notes in an appropriate form.
- 2 What is another word for *indirect expenditure*?
- 3 Give three ways of apportioning overheads using the absorption costing method.
- 4 Were your questions in Exercise A answered?

D Match each phrase in the first column of the table on the right with the type of information that can follow.


E Listen to Part 3 of the lecture.

- 1 Make notes on the information that comes after the phrases in Exercise D.
- 2 Were your questions in Exercise A answered?

F Listen for sentences 1–3 in Part 4 of the lecture. Which sentence (**a** or **b**) follows in each case? Why?
See Skills bank

- 1 One popular method is standard costing.
 - a This method of costing is used in both manufacturing and service environments.
 - b Both manufacturing and service environments use this method of costing.
- 2 The object of standard costing is to establish standard costs.
 - a Such costs are established by identifying an objective relationship between specified inputs and expected outputs.
 - b You identify an objective relationship between specified inputs and expected outputs to establish such costs.
- 3 Actual costs are compared to the standard, which acts as an ideal.
 - a Any difference is posted to a variance account.
 - b What you do with any difference is post it to a variance account.

G This lecturer is not very well organized. What problems are there in the lecture?



Faculty: Accountancy Costing (Lecture 1)

Lecture overview

- Importance of costing
- Absorption/process costing
- Theory of constraints
- Limitations of standard costing model

Fixed phrase	Followed by ...
1 An important concept (is) ...	a different way to think about the topic
2 What do I mean by ...?	an imaginary example
3 As you can see, ...	a key statement or idea
4 Looking at it another way, ...	a concluding comment giving a result of something
5 In financial terms, ...	a new idea or topic that the lecturer wants to discuss
6 The point is ...	an explanation of a word or phrase
7 Say ...	a comment about a diagram or picture
8 In this way ...	a general idea put into a financial context

7.3 Extending skills

stress within words • fixed phrases • giving sentences a special focus

A Listen to some stressed syllables. Identify the word below in each case. Number each word.

Example:

You hear: 1 tar /tɑː/ You write:

assembly	_____	consume	_____	measures	_____
behaviour	_____	costing	_____	model	_____
complexity	_____	diversity	_____	storage	_____
component	_____	internal	_____	sufficient	_____
constraints	_____	material	_____	target	1

B Listen to the final part of the lecture which began in Lesson 7.2.

- 1 Complete the notes on the right by adding a symbol in each space.
- 2 What research task(s) are you asked to do?

C Study the phrases from the lecture in the blue box. For which of the following purposes did the lecturer use each phrase?

- to introduce a new topic
- to emphasize a major point
- to add a point
- to finish a list
- to give an example
- to restate

D Rewrite these sentences to give a special focus. Begin with the words in brackets.

- 1 Henry Gantt came up with an idea to help with scheduling. (*It*)
- 2 Gantt invented his charts in the early 1900s. (*It*)
- 3 Gantt charts show what processes are happening at any one time. (*The advantage*)
- 4 The practice of costing is very important in controlling the production of goods and services. (*What*)
- 5 Costing products is complex because tracing overheads correctly needs to be based on identifying cost drivers. (*Two sentences. First = 'It'; Second = 'The reason'*)

See **Skills bank**

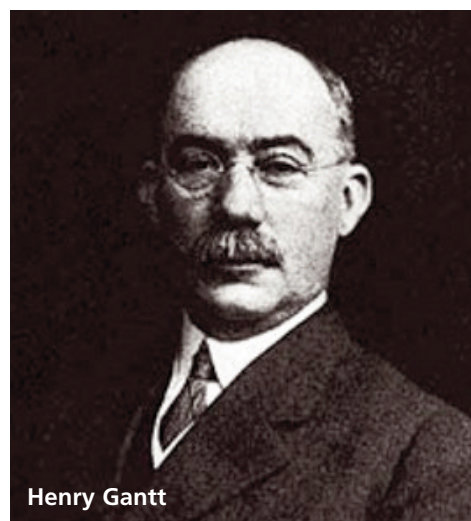
E Choose one section of the lecture. Refer to your notes and give a spoken summary. Use the fixed phrases and ways of giving special focus that you have looked at.

F Work with a partner.

- 1 Make a Gantt chart for an activity, project or process.
- 2 Present your charts to another pair. Practise using fixed phrases and ways of giving special focus.

See **Vocabulary bank and Skills bank**

- 1 ABC's _____ importance in present-day costing.
- 2 ABC costs _____ a function of behaviour, _____, driver for costs is activities.
- 3 Conventional costing models fail _____ don't recognize importance of activities in behaviour of costs.
- 4 _____ correct way to cost a unit accurately _____ assign the correct direct costs _____ a measure of overheads _____ volume.






Henry Gantt

et cetera ...
In other words, ...
Let's take ...
To put it another way ...
Not to mention the fact that ...
Plus there's the fact that ...
The fact of the matter is, ...
You've heard of ...

7.4 Extending skills

making effective contributions to a seminar

- A** Look at the cartoon and text on the opposite page.
- 1 What points are they making?
 - 2 How do they support each other?
- B**  Listen to the first extract from a seminar about RCA and other costing methods.
- 1 What question will the students discuss?
 - 2 What costing models and system will the students discuss?
- C**  Listen to Extract 2 of the seminar. Are these sentences true or false?
- 1 Depending too much on GAAP can cause costing problems. _____
 - 2 The German CMS operates within a framework of ideas similar to the US and UK approaches. _____
 - 3 There are four levels of control process in the German approach to CMS. _____
 - 4 Traditional accounting methods use more cost centres than the RCA model. _____
 - 5 Product costs are normally made up of those elements arising from manufacturing. _____
- D** Study tasks a–d below and the phrases in the blue box.
- 1 Write **a**, **b**, **c** or **d** next to each phrase to show its use.
 - a introducing
 - b asking for clarification
 - c agreeing/disagreeing
 - d clarifying
 - 2  Listen to Extract 2 again to check your answers.
- E** Work in groups of four to research four different types of costing. Each person should choose a different costing method and additionally compare the different approach to costing in continental Europe and the US/UK.
- Student A: read about *conventional costing* on page 102.
 Student B: read about *process costing* on page 104.
 Student C: read about *activity-based costing* on page 102.
 Student D: read about *Resource Consumption Accounting* on page 104.
- After reading the notes, report back orally to your group. Use fixed phrases to ask for and give clarification.
- F** Work in groups. Discuss the pros and cons of standard costing. Your teacher will ask you to do this in terms of a product or service you know. Report to the class on your discussion, giving reasons for your decisions.

I'd like to make two points.	_____
First, ...	_____
Can you expand on that?	_____
What I meant by that was ...	_____
The point is ...	_____
What's your second point?	_____
My second point is that ...	_____
Yes, but ...	_____
I don't agree with that because ...	_____
Sorry, but who are we talking about, exactly?	_____
We need to be clear here.	_____
In what way?	_____
Can you give me an example?	_____
Absolutely.	_____
What I'm trying to say is, ...	_____
Look at it this way.	_____

Current accounting information



Resource Consumption Accounting

There is a pandemic in the accounting profession in businesses across the USA. This problem has been festering for years and is in urgent need of fixing. Somehow American companies, large and small, have lost their way. The accounting industry has lost sight of its most important clients: management. According to a recent study carried out by the Institute of Management Accountants and Ernst and Young, 98% of managers believe their cost data is distorted, while almost 40% believe their cost data is significantly distorted. Management is not getting accurate information to make decisions, and if 98% of managers recognize this fact, we need a new solution that supports decision-making. Resource Consumption Accounting (RCA) is an emerging management accounting method. RCA is easier to understand, provides better decision support, produces more accurate results and may be the first accounting system praised by non-accountants and managers.

The problem with the state of the accounting profession is the skewed emphasis towards financial accounting. Financial accounting is used to prepare financial statements for external users. These financial accounting reports are for outsiders to assess the business,

but the reports focus on compliance with GAAP (Generally Accepted Accounting Principles) in broad totals and are not designed to support decision-making. Despite this fact, 80% of organizations rely on the GAAP-required normal costing method to provide management with reports. When management reports echo standard financial reports, management loses. These reports have no activity data and often require managers to prepare their own ad-hoc reports when they require decision analysis. These financial reports are difficult to understand by non-accountants and do little to give managers the information they should have at their fingertips to run a company.

Resource Consumption Accounting is an emerging solution that integrates the best methods from across the globe. RCA combines the German cost-management system Grenzplankostenrechnung (GPK) with the cost allocation methods of ABC to form a comprehensive management accounting system that may finally give non-accountants ready information to make decisions.

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Vocabulary bank

Recognizing fixed phrases from accountancy (1)

There are many fixed phrases in the field of accountancy.

Examples:

Phrase	Meaning in the discipline
<i>activity-based costing</i>	where costs are seen as the result of activities undertaken
<i>overhead allocation</i>	the way overheads are spread across products and services
<i>control account</i>	an account to which the debit and credit totals of other accounts are posted
<i>variance account</i>	used in standard costing to post differences from the standard cost of a product or service

Keep a list of fixed phrases used in accountancy and remind yourself regularly of the meaning.

Recognizing fixed phrases from academic English (1)

There are also a large number of fixed phrases which are commonly used in academic and technical English in general.

Examples:

Phrase	What comes next?
<i>As we have seen ...</i>	a reminder of previous information
<i>An important concept is ...</i>	one of the basic points underlying the topic
<i>As you can see, ...</i>	a reference to an illustration OR a logical conclusion from previous information
<i>As shown in ...</i>	a reference to a diagram or table
<i>... in such a way that ...</i>	a result of something
<i>In addition to (X, Y)</i>	X = reminder of last point, Y = new point
<i>As well as (X, Y)</i>	
<i>In the case of ...</i>	a reference to a particular topic or, more often, subtopic
<i>At the same time, ...</i>	an action or idea which must be considered alongside another action or idea
<i>... based on ...</i>	a piece of research, a theory, an idea
<i>Bear in mind (that) ...</i>	key information which helps to explain (or limit in some way) previous information
<i>The point is ...</i>	the basic information underlying an explanation
<i>in order to (do X, Y)</i>	X = objective, Y = necessary actions/conditions
<i>In financial terms, ...</i>	something seen from a financial point of view
<i>In other words, ...</i>	the same information put in a different way
<i>Looking at it another way, ...</i>	
<i>In this way ...</i>	a result from previous information
<i>Say ...</i>	an example
<i>What do I mean by (X)?</i>	an explanation of X

Make sure you know what kind of information comes next.

Skills bank

'Given' and 'new' information in sentences

In English, we can put important information at the beginning or at the end of a sentence. There are two types of important information.

- 1 Information which the listener or reader already knows, from general knowledge or from previous information in the text. This can be called 'given' information. It normally goes at the beginning of the sentence.
- 2 Information which is new in this text. This can be called 'new' information. It normally goes at the end of a sentence.

Example:

In Lesson 7.2, the lecturer is talking about standard costing, so this method in general = given information

Given	New
<i>One popular method</i>	<i>is standard costing.</i>
<i>This method of costing</i>	<i>is used in both manufacturing and service environments.</i>

Giving sentences a special focus

We sometimes change the normal word order to emphasize a particular point, e.g., a person, an object, a time.

Examples:

Normal sentence	<i>Henry Gantt invented the Gantt chart in the 1900s.</i>
Focusing on person,	<i>It was Henry Gantt who invented ...</i>
Focusing on object	<i>It was the Gantt chart which Henry Gantt invented ...</i>
Focusing on time	<i>It was in the early 1900s that Gantt ...</i>

Introducing new information

We can use special structures to introduce a new topic.

Examples:

Costing methods are my subject today.

→ ***What I am going to talk about today is costing methods.***

Accuracy is very important.

→ ***What is very important is accuracy.***

Incomplete data causes the problem.

→ ***The reason for the problem is incomplete data.***

Poor costing leads to commercial failure.

→ ***The result of poor costing is commercial failure.***

Clarifying points

When we are speaking, we often have to clarify points. There are many expressions which we can use.

Examples:

Let me put it another way ...

What I'm trying to say is ...

Look at it this way ...

The point/thing is ...