

## **ICAG BUSINESS LESSONS (WEEK 22)**

### **Good morning**

This is week 22 of the year 2022 in the Gregorian calendar. 30 weeks remain until the end of the year.

### **MONDAY MOTIVATION**

Concentrate all your thoughts upon the work in hand. The sun's rays do not burn until brought to a focus.

– Alexander Graham Bell

### **FUN FACT OF THE WEEK**

On Friday 27<sup>th</sup> May 2022, ICAG held its 2022 Annual General meeting. Amongst other agenda was to elect new Council members.

In our fun fact, we bring to you brief profile of the Council President Elect, Ms. Sena Dake Anapey.

Ms. Sena Dake Anapey (Esq., FCA, FloD) is a Barrister, Chartered Accountant (Fellow) and a Certified Tax Accountant. She holds Master's Degree in Banking and Finance. She also holds a Certificate in Climate Change and Renewable Energy Financing and also completed a Certification as an Information System Auditor. She currently enrolled on a Public Leadership program at Harvard Kennedy School in Cambridge, Massachusetts.

She has over 20 years of experience in areas of finance, project management, policy development, compliance and auditing, organizational risk management, amongst others.

Ms. Sena served the following Management and Advisory roles: Director of Internal Audit – University of Ghana, Founder of INEX solutions, Ghana Audit Service, Gaming Commission of Ghana, University of Education- Winneba, amongst others.

Prior to her election as the President, Ms. Sena served in ICAG as the Council Vice President (2020-2022), Council Member (2016-2020), Chair, Finance & Administration Committee, ICAG (2020-2022), ICAG Examinations Committee (EC), (supported EC since 2014 & Chaired: 2018-2020), Chair, ICAG Communication and Publicity Committee, ICAG (2016 to 2020), Chair, ICAG ICT Committee (2016 to 2020), Member, Education & Training Committee, ICAG (2010-2014).

She is a Fellow, Institute of Directors, a member of Ghana Bar Association, Chartered Institute of Taxation Ghana, Institute of Internal Auditors, and many more.

*Ms Sena Dake, Congratulations!*

## **MANAGEMENT QUOTE OF THE WEEK**

Beware of little expenses. A small leak will sink a great ship.

- Benjamin Franklin

## **MANAGEMENT CONCEPT OF THE WEEK: MARGINAL COSTING AND ABSORPTION COSTING – PART I**

### ***MARGINAL COSTING***

Marginal cost of an item is its variable cost. It is also known as Direct cost. It is an alternative costing method to absorption costing method.

It is usually assumed that direct labour costs are variable costs but often, direct labour costs might be fixed costs and so would not be included in marginal cost.

Marginal cost is the sum of direct material, direct labor, direct expense and variable production overheads.

### **Reasons for using Marginal Costing**

Marginal costing method is used for the following reasons:

- To measure profit or loss as an alternative to absorption costing
- It is used to forecast what future profits will be.
- It is used to calculate what the minimum sales volume must be in order to make a profit.
- It is used to provide management with information for decision making.
- It is used for planning forecasting and decision making

### **Assumptions in Marginal Costing**

- The variable cost per unit is a constant value
- Fixed cost remains the same regardless of units produced and sold.
- Costs are either fixed or variable or a mixture of fixed and variable. Mixed costs can be separated into variable costs per unit and fixed costs per period.

- The marginal cost of an item is the extra cost that will be incurred by making and selling one extra unit of the item.

### **Advantages of marginal costing**

- a. It is easy to account for fixed overheads using marginal costing. Instead of being apportioned they are treated as period costs and written off in full as expense in the statement of profit or loss for the period when they occur.
- b. There is no under or over-absorption of overheads with marginal costing and therefore no adjustment is necessary in the statement of profit or loss at the end of the accounting period.
- c. Marginal costing provides useful information for decision making.
- d. Contribution per unit is constant, unlike profit per unit which varies as the volume of activity varies.

### **Disadvantages of marginal Costing**

- Marginal costing does not value inventory in accordance with the requirements of financial reporting. However, for the purposes of cost accounting and providing management information, there is no reason why inventory values should include fixed production overhead, other than consistency with the financial accounts.
- Marginal costing can be used to measure the contribution per unit of product, or the total contribution earned by a product, but this is not sufficient to decide whether the product is profitable or not. Total contribution has to be sufficient enough to cover fixed costs and make a profit.

### **DID YOU KNOW?**

At the just ended Accountant's week celebration, members of ICAG at the Annual General Meeting, elected new council members. The following are the new council composition.

Ms. Sena Dake Anapey – President Elect

Mr. Augustine Addo – Vice President Elect

Mr. Emmanuel Mc-Coffie Ankamah – Member

Mrs Patience Mawushie Dzikunoo – Member

Dr. Isaac Nyame - Member

Dr. Cynthia Ayorkor Sallah – Female Member

Mrs. Agnes Otoo Yeboah – Female Member

*Have a fruitful week!*

Compiled by:

Technical and Research Directorate, (Institute of Chartered Accountants (Ghana)).

Please send all comments and suggestions to **Alhassan Trawule** on **0242 732976**.

Join the ICAG...and be a Business Leader. **Call us on 0544 336701/2 or 0277801422/3/4**

#ICAG

#BusinessTeacher

#ICAGResearch

#TBSC2022