

MANAGERIAL ACCOUNTING INFORMATION AND SHORT-TERM DECISION

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I. CRITERIA FOR SELECTING SHORT-TERM DECISION

In order to make a right short-term decision, managers should know how to distinguish inappropriate information from appropriate one. Inappropriate information should be deleted and appropriate one should be put into information structure used for making business decision.

In terms of time, a decision considered as short-term relates to a shorter period, or in other words, its influence could be seen within an accounting period. In terms of investment, a short-term decision requires small investment, that is, the short-term decision is more flexible than a long-term one. Moreover, the short-term decision aims at realizing goals set forth by a long-term decision.

The economic criterion for making a short-term decision is to select an action which is predicted to bring in the maximum income (or minimum expenses). It isn't always easy to make right decisions based on this principle, so the following two matters should be taken into consideration also:

- Income and expenditure appropriate to the decision should be different from existing income and expenditure predicted by other plans.
- Existing income and expenditure are inappropriate to considering a decision. Existing income and expenditure could be only used for predicting future, or potential, income and expenditure.

II. IDENTIFICATION OF INFORMATION APPROPRIATE TO THE PROCESS OF MAKING A SHORT-TERM DECISION

The process of analyzing information appropriate to making a short-term decision consists of four steps:

- *Step 1:* To gather information about all incomes and expenses relating to plans under consideration.

- *Step 2:* To put aside capital expenditure which is indispensable to all plans under consideration. The capital expenditure is an amount of money spent, so it will be present in all plans. Therefore, in the decision-making process, there is no difference in the capital expenditure between plans under consideration. So the capital expenditure isn't considered as expenses appropriate to decision making.

Example: A company spent 50 million đồng on preparation for opening a new concern. Because many problems arose during the course of preparation, the company had to consider whether to build the new concern at planned location or not. The said 50 million was the capital expenditure because it was present in both the decision on and decision against building the concern in planned location. Therefore, in taking a decision, this expenditure is not worth discussing. The capital expenditure consists of all sums of money spent on fixed assets or on improvements to fixed assets.

- *Step 3:* to put aside identical incomes and expenses existing in plans under consideration, because they won't make plans different so they can't be information appropriate to selecting decision. However, the difference between these incomes and expenses brought about by various plans is appropriate information.

- *Step 4:* The remaining incomes and expenses are information appropriate to selecting short-term decision.

However, it's worth noting that the information appropriate to this case is not absolutely appropriate to another, because in each case, one needs different information. This is the basic principle of the managerial accounting which is frequently applied in decision-making process.

III. AN ILLUSTRATION OF HOW TO HANDLE INFORMATION APPROPRIATE TO DECISION-MAKING PROCESS

Company ABC is wondering whether to buy a new machine or use the existing one. The new machine costs 100 million and will last for 10 years. Incomes and



expenses generated by these two machines are presented in the following table:

	Expenses	
	Existing machine	New machine (est.)
Items produced and sold	10,000	10,000
Unit price (VND1,000)	60	60
Cost of one item produced (VND1,000)	20	20
Wage and salary for one item (VND1,000)	15	10
Variable expenses per item (VND1,000)	5	5
Annual overhead expenses (VND1,000)	100,000	100,000
Amortization (VND1,000)		10,000

The new machine will reduce expenses on wage and salary by VND5,000 per item produced, but increase the annual amortization by VND10,000,000. All remaining expenses of two plans are the same regardless of the volume produced and consumed.

We take the said four steps to analyze the appropriate information:

- Step 1: Gathering needed information (the above table has supplied all).

- Step 2: Putting aside capital expenditure: there's no capital expenditure in this illustration.

- Step 3: Putting aside identical incomes and expenses of the two plans which are: unit price (VND60,000), cost of one item produced (VND20,000), variable expenses (VND5,000), overhead expenses (VND100,000,000), and expenses on wage and salary (VND10,000).

- Step 4: The remaining information consists of a saving of expenses on wage and salary (VND5,000) and amortization of new machine (VND10,000,000 per year).

The above mentioned information is appropriate to decision-making process. We can easily see that:

+ The saving of expenses on wage and salary by using new machine is 10,000 items x VND5,000 = VND50,000,000.

+ Annual amortization of new machine is VND10,000,000.

Thus, the saving achieved is VND40,000,000.

In addition to this method of analyzing expenses in order to make decision, we can prepare financial statements for each plan and compare them. The result will be the same. However, the method of analyzing expenses can save us a lot of time because we need not work out identical expenses which exist in all plans.



HOTEL - RESTAURANT THE MOST ATTRACTIVE INDUSTRY TO FOREIGN INVESTMENT

by MINH TÂM

Up to October 1995, of 441 valid foreign investment projects in HCMC, 52 are in hotel industry with total investment of US\$ 1,959.5 million representing one fifth of total investment of the said 441 projects (US\$5,993.3 million). The second most attractive is manufacturing industry (US\$303.3 million). Of the total industrial output of HCMC of VND7,421.1 billion in the first 10 months of 1995, the manufacturing industry contributed VND1,037.9 billion.

Of these projects, few invested in education, health care, and water and power supply. Up to now, besides housing industry, there were 33 over-100-million dollar projects investing mainly in real estate and consultant service businesses.

Hong Kong is the leading investor in terms of number of projects (71). The next is Taiwan (68), and then, Singapore (59). Taiwan put the biggest investment in HCMC: US\$1,694 million and was the biggest buyer of goods produced in HCMC. Up to October 1995, Taiwan has bought US\$144.6 million worth of goods produced in HCMC and consumed 16.8% of garment exported by HCMC-based companies.

Foreign investment in the first 10 months of 1995

	Number	Total capital (US\$ million)	%
Total number of projects	93	1,897	100
* Forms of foreign investment			
Joint venture	58	1,725	90.9
Business Co-operation			
Contract	6	26	1.4
100% foreign-owned enterprise	29	146	7.7
* Industry			
Manufacturing	44	268	14.12
Real estate and Consultant service	29	919	48.44
Finance and Credit services	5	70	3.69
Hotel and restaurant	2	531	27.9
Transportation and warehouse	4	10.5	0.5