



## GOLDEN RULE

The basics are you are weighing option A against option B. Therefore relevant cashflows are only cashflows that will change **BASED** on the **OPTION** selected.

## RELEVANT COST

Short-term decision making requires distinction between relevant and irrelevant information. Typical decisions:

- Make or Buy
- Special orders
- Constraints
- Outsourcing

## KEY TIPS

1. Think of relevant costing as deciding between 2 pairs of shoes. The idea is to convince management which pair would be the best fit for the company the only difference is company decisions are measurable in terms of cashflows!

## THOUGH PROCESS

1. Identify **ADDITIONAL INCOME** to be made from the decision
2. Identify **COST ALREADY** incurred (to be ignored)
3. Identify **OPPORTUNITY COSTS**

## QUALITATIVE ISSUES

Consider the 9 Building blocks of a business model and how the decision affects **EACH** building **BLOCK**

## CAPACITY CONSTRAINT

1. Identify the resource causing the constraint
2. Contribution per product / Amount of constraint resource used = X
3. Rank X for each product from highest to lowest
4. Produce from highest to lowest contribution