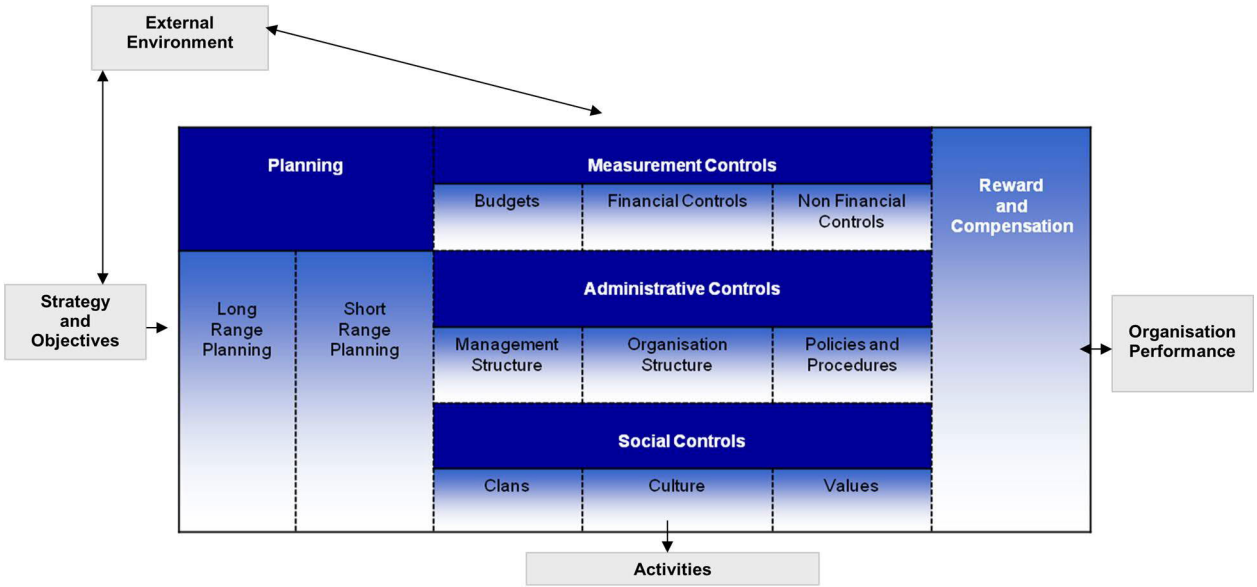
Final Exam:

| | | | |
|---|---|---|---|
| Section 1 | Budgeting practice and theory (operating and cash budgets) | Calculations and theory | 30 marks |
| Section 2 | Decision Support and Business Intelligence | Applied theory | 20 marks |
| Section 3 | Administrative systems | Calculations and applied theory | 25 marks |
| Section 4 | Critical issues: reward & compensation; socio-Ideological control | 2 short essays | 25 marks |

## Control package (Brown, 2005; Malmi & Brown, 2008)




Management Accounting: the process and techniques that focus on the effective and efficient use of organisational resources, to support managers in their tasks of enhancing both customer value and shareholder value. Managers have an increasing need to recognize and understand customer value.

Customer value: the value that a customer places on particular features of a product. Satisfying the customer leads to increased sales and market share, which is needed to increase shareholder value.

Shareholder value: involves improving the worth of the business from the shareholders/ owners perspective. This usually includes increased profitability, share price and dividends. It is management's responsibility to deliver this.

Management accounting system: an information system that produces the information required by managers to manage resources and create value. Management provide information on an ad-hoc basis, to satisfy short and long term decision making needs of management.

Ad-hoc: dealing with a specific subject ie and ad hoc committee for a specific job.

Objectives: Specific statements of what the organisation aims to achieve often quantified and relating to a specific period

Strategies: the direction that the organisation intends to take over the long term to meet its mission and achieve its objectives

Corporate strategy: decisions about the types of businesses in which to operate, which businesses to acquire and how to best structure and finance the organisation.

| | Management accounting | Financial accounting |
|---|---|---|
| Users of information | Internal: managers and employees | External: shareholders, creditors, banks, stock exchange, trade unions |
| Regulations | No accounting standards or external rules imposed. Information is generated to satisfy managers information needs | Accounting standards and corps law regulate content on the financial statements |
| Sources of data | Financial and non financial data | Financial data generated from accounting system |
| Nature of the information | past, current, future | Past, reliable, verifiable, not timely and not always relevant |

Lecture one notes:

History of management accounting: cottage industries -> industrial revolution -> scientific management movement -> human resources approach -> management science -> contingency -> sociological

Key points:

social context of management accounting is recognised
Contingency theory -> one size fits all
Management accounting development is linked to development in management styles

Theories: seek to explain how and why

Knowledge:

what we do / don't know
research testing
theorizing
data testing
conclusions

Management accounting: the construction of information to control and make decisions

Economics -> supply and demand. Ie resources are scarce
Management science and operation research -> engineering processes -> provides analytical and theoretical model
sociology -> how theories exist in society and the impact on management, the information they use to make decisions and control activities and people.

Organisations:

we are better off when we collaborate
trying to achieve maximum shareholders wealth and corporate and social responsibility (financial, environmental and social)

The factor that dominates objectives depends on who the stakeholders are and their level of influence (salience). There are three components for influencing objectives:

Power
Legitimacy
Urgency

Stakeholders: any group of individuals who affect or are affected by the achievement of the organisations objectives

Strategy: key interface between organisation and its environment.

Corporate strategy -> the allocation of resources, financing structures, organisational structure and markets of operation
Eg. Geelong -> who we are, what we stand for. Values of an organisation should reflect the corporate strategy
Competitive strategy -> how the business positions itself in the market eg cost leadership or product differentiation.

Decisions about the types of businesses to operate, which businesses to acquire and divest and how best to structure and financial the organisation. Diversify vs one market. Eg west farmers buying Coles

Operational strategy (day to day) eg. Efficiency and quality -> how we deliver competitive strategy eg. Operational excellence, JIT, warehousing, minimizing wastage
Eg. Woolworths -> homebrand
Coca-cola -> distribution around the world ->Makes money of other products
Online vs buying in shops

Performance:

Achieving long and short term financial and non financial performance eg. Externalities
Satisfaction of relevant stakeholders
Historically on financial measures

The control problem: organisations and individuals are goal seeking entities whose goals may not be congruent. Management control systems seek to align goals and create goal congruence. Organisations make various long and short term decisions that trade off the various interests of stakeholder groups.

Five purposes for decisions based on accounting systems:

Formulating overall strategies and long range planning
Resources allocation decisions
Cost of planning and cost control of operations and activities
Performance measurement and evaluation of people
Meeting external regulatory and legal requirements for reporting

Contingency theory:

No universal approach
Depends upon specific circumstances

Contingent variable -> choose the best MCS for variable -> should be reflected in performance

Stakeholders theory: firms values will unite stakeholders. Despite aims of the business, anyone who can affect or be affected by the activities of the business is classed as a stakeholder.

Organisational objectives: balances between financial, environmental and social objectives. Should be determined by the stakeholders

MCS as a package:

Planning controls
Cybernetic controls
Reward and compensation controls
Administrative controls
Cultural controls

Lecture two: budgeting

Budgets are the single most prevalent and important management control. Management relies on budgets the most out of all other management controls

Definition: a detailed plan summarising the financial consequences of an organisations operating activities for a specific future time period.

Purpose of a budget:

Planning -> quantify plan of action
Facilitating communication and coordination –> budgets act as a formal mechanism for this
Allocating resources -> deciding where all the money should go
Controlling rofit and operations -> measure actual against planned performance
Evaluate performance and provide incentives -> remuneration is tied to the budget performance

Assumptions for budgets need to be justified

Preparation of budgets:

Planning considerations -> economic considerations, industry, wage, inflation
Bottom up vs top down: direction of information gathering
Incremental vs zero based
Incremental: last years budget as a starting point with incremental changes
Zero based: starts from zero and constructs the budget and justifies everything
Budget timing -> developed to be fixed or rolling
Strategy – ex ante or ex post

Types of budgets:

Operating budgets: specifies how operations will be carried out to meet the forecasted sales demand eg. Sales budget, cost budget, expense budget
Cash budgets: shows the detailed expected cash receipts and planned cash payments eg. Cash flow statement -> estimate cash inflows and outflows relating to operations

Capital expenditure budget: estimate cost proposed projects and the time of related expenditures and revenues
Project budgets: budgets are defined for projects

Components of a budget:

Sales budget: ( units sales prices * forecast sales unit)
Unit absorption cost: the average cost of making one unit
Production budget: forecasted sales + closing inventory –opening inventory = production required (unit)s
Cost of current months production (inventory produced): DM, DL, OH = (units produced *vc/u) + fc
remember to use the formula individually
Value of opening and closing inventory stock: opening finished goods = opening units * UAC. Closing finished goods = closing units * UAC
Expense budget: selling and admin expense: (units sold * vc/u) + fc. Interest expense
Cash receipts : total receipts collected in month from sales that occurred in month and other month

Tutorial question:

Sales budget:

220*250 = 55,000 total forecasted sales revenue

UAC:

| UAC | fc | vc |
|---|---|---|
| DM | 5,000 | 5*.8 = 4 |
| Indirect M | | 1 |
| DL | 6,000 | 18*.8 =14.4 |
| Indirect L | | 3.6 |
| VOH | 18,600 | 25 |
| FOH | 29,600 | |
| Denominated level of activity | 400 | 74 |
| UAC | | $122 |

220 + (300*.25) – 55 =240

| Production budget in units: | |
|---|---|
| Forecasted sales (units) | 220 |
| Add: closing inventory | 300*.25 = 75 |
| Less: opening inventory | 55 |
| | 240 |

| Cost of current months production | | |
|---|---|---|
| Direct Material | 240*5+5,000 | 6,200 |
| Direct Labour | 240*18+6,000 | 10,320 |
| Overheads | 240*25+18,600 | 24,600 |

Value of opening inventory stock: 55*122 = 6,710

Value of closing inventory stock: 75*122 = 9,150

Expense budget:

Selling and Admin expense: 220* 10 +2,500 = 4,700

Interest expense: no interest expense

Cash receipts:

| | dec | jan |
|---|---|---|
| % of sales to be collected in Jan | 42% | 55% |
| Accounts receivable relating to sales period | 60,000 | |
| Total sales revenue for sales period | 60,000/(1-.55)= 133,333 | 55,000 |
| Credit = total revenue *.7 | - | 38,500 |
| Cash = total revenue * .3 | - | 16,500 |
| % of sales to be collected in Jan | 42% | 55% |
| Cash receipts collected in Jan | (133,333 * .42) 56,000 | 21,175 |
| Total Cash receipts collected in Jan | 16,500 + 56,000 + 21,175 = | 93,675 |

| Operating budget | |
|---|---|
| Sales | 55,000 |
| Less: cogs | |
| Opening inventory (finished goods) | 6,710 |
| Current cost of production: | |
| DM | 6,200 |
| DL | 10,320 |
| OH | 24,600 |
| Total cost of production | 41,120 |
| Finished goods available for sale (opening inv + total cost of production) | 47,830 |
| Less: closing finished goods | 9,150 |
| Cogs | 38,680 |
| Gross Profit (sales – cogs) | 16,320 |
| Less: operating expenses | |
| Sales and admin | 4,700 |
| Interest | n/a |
| Depreciation Expense (2,000 + 1,000) | n/a it is included in foh |
| Bad debt write off ( 3% * 70% of sales revenue) | 1,155 |

| | | |
|---|---|---|
| Total Operating expense | | 5,855 |
| NPBT | | 10,465 |
| Less tax: (.3) | | 3,139.5 |
| NPAT | | 7,325.5 |

| Cash Budget | | |
|---|---|---|
| Cash receipt | | |
| Current month | 21,175<br>16,500 | |
| Previous month | 56,000 | 93,675 |
| Cash payment | | |
| Materials (all paid in same month) | 6,200 + closing balance 7,275 – opening balance 6,250 | 7,225 |
| Labour ( all paid in same month) | 10,320 +4250 – 3,500 | 11,070 |
| O/H – current month depreciation expense | (24,600 – 2,000 ) *.3 | 6,780 |
| Accounts payable | | 22,500 |
| Selling and admin expense | (4,700 – 1000) office equip *.3 | 1,110 |
| interest | | 47,185 |
| | | |
| | | |
| Changes in cash balance | 93,675 – 47,185 | 46,490 |
| Cash balance at beginning of the month | Less cash balance | 26,710 |
| Cash balance at end of month | | 19780 |

Lecture 3: Performance Measurement:

Definition: Performance measurement is a system for determining if a set of objectives has been achieved. Eg. Exams is a of performance measurement of how well we have learnt through out semester.

Performance measurement helps management determine if they have achieved their objectives. Performance as includes objectives for organisation, department or individual. There is a common misconception that performance measurement is only financial performance.

Examples of objectives:

- Profit and return to shareholders
- Reputation and customer satisfaction
- Quality products
- Safety
- Employee satisfaction
- Environmental management
- Stakeholder management
- Innovation
- Long term growth

Kaplan – 'what gets measured gets done'