

INTRODUCTION TO MANAGEMENT ACCOUNTING AND COSTING

Accounting information systems- Contemporary View

A/S- A transaction-processing system that captures financial data resulting from accounting transactions within a company.

Tradition financial accounting information:

- Assets
- Liabilities
- Revenues
- Gross Margin
- Operating Expenses

Non Financial Information:

Quantitative information:

- Percentage of Defects
- # Customer Complaints
- Warranty Claims
- Inventory Units
- Budgeted Hours

Qualitative Information

- Customer & Employee Satisfaction
- Product & Service Quality
- Reputation

Managerial accounting vs financial accounting

Financial accounting is the area of accounting primarily concerned with the preparation of general-use financial statements for creditors, investors and other users outside the company (external users).

External Users: Shareholders, potential investors, creditors, suppliers, etc.

Managerial accounting is primarily concerned with generating financial and non-financial information for use by managers in their decision-making roles within a company (internal users).

Internal Users: Employees, teams, departments and top management

	Users	Type of Accounting info	Source
External	Shareholders & creditors	Sales, gross profit, net income, cash flow, assets and liabilities, earnings per share, etc. Although this information is primarily financial, it may also include non-financial information (units in inventory). This information is often provided in summary form (for the company as a whole) and typically is historical in nature.	Annual reports, financial statements and other available documents

	Government Bodies	Varies by agency but includes taxable income, sales, assets, comparisons of actual expenditures to budgets, etc. This information is usually provided for the company as a whole and is historical in nature. It can include both financial and non-financial information	Tax returns and other reports
	Customers & Supplies	Order status, shipping dates, inventory levels, etc. This information must be very detailed and timely to be useful.	Limited-access databases available to specific customers and suppliers
Internal	Marketing, operations and production, finance and human resource managers	Timely and detailed information on sales and expenses, product costs, budget information and measures of performance. Often includes non-financial data (direct labour hours, units to break even, etc.). Accounting information is often needed for segments of an organisation and is more likely future oriented than historical.	Cost reports, budgets and other internal documents

Long-Term Planning Activities: Strategic Planning

- Market Share
- New Equipment
- Sales Growth
- Plant locations

Short Term Planning: Operational Planning

- Current cash needs
- Customer service needs
- Sales quota
- Time budget

Operating Activities

Encompass what managers must do to run the business on a day-to-day basis.

Dailey business decisions

- Should we advertise
- Should we accept special offers
- Should we make or buy parts
- What price do we charge

Controlling activities:

Involves motivation, monitoring, and evaluation of employees to attain company goals. Involve the motivation and monitoring of employees and the evaluation of people and other resources used in the organisation's operations. The purpose of control is to make sure that the goals of the organisation are being attained. Control

often involves the comparison of actual outcomes (cost of products, sales and so on) with desired outcomes (as stated in the organisation's

E.g.

- Incentives
- Performance Measures
- Product Quality

Planning Activities

Involves the development of both the short-term (operational) and long-term (strategic) objectives and goals of an organisation and the identification of the resources needed to achieve them,

- Operational Planning: is the development of short-term objectives and goals, determining
- Strategic Planning: addresses long-term questions of how an organisation positions and distinguishes itself from competitors and the determination of long-term performance and profitability measures such as market share, sales growth and share price.
 - o Where to invest, plants, equipment

Decision Making *is the process of identifying different courses of action and selecting one appropriate to a given situation.*

An effective decision-making model is one that focuses on relevant factors that differ between alternatives.

Relevant Costs

Relevant Costs are those that differ among alternatives. Another way to view relevant costs is to identify those that are avoidable, or those that can be eliminated by choosing one alternative over another.

Sunk Costs

Sunk costs are costs that have already been incurred. Because sunk costs cannot be avoided, they are not relevant in a decision.

Opportunity Costs

Opportunity costs are the benefits forgone by choosing one alternative over another and are relevant costs for decision-making purposes. Opportunity costs might also be non-financial, instead being time or experientially driven, but no less important to decision making.

Ethics:

There are five broad governing principles expected of professional accountants. These are:

1. *Integrity* – Being straightforward and honest, implying fair dealing and truthfulness.
2. *Objectivity* – Not compromising judgement owing to bias, conflict of interest or undue influence.

3. *Professional competence and due care* – Continuing awareness and understanding of relevant technical, professional and business developments.
4. *Confidentiality* – Disclosing information relating to the firm that is otherwise private (unless there is a legal obligation to disclose), or using private information for personal gain.
5. *Professional behaviour* – Complying with relevant laws and regulations and avoiding any action or omission that may bring discredit to the profession.

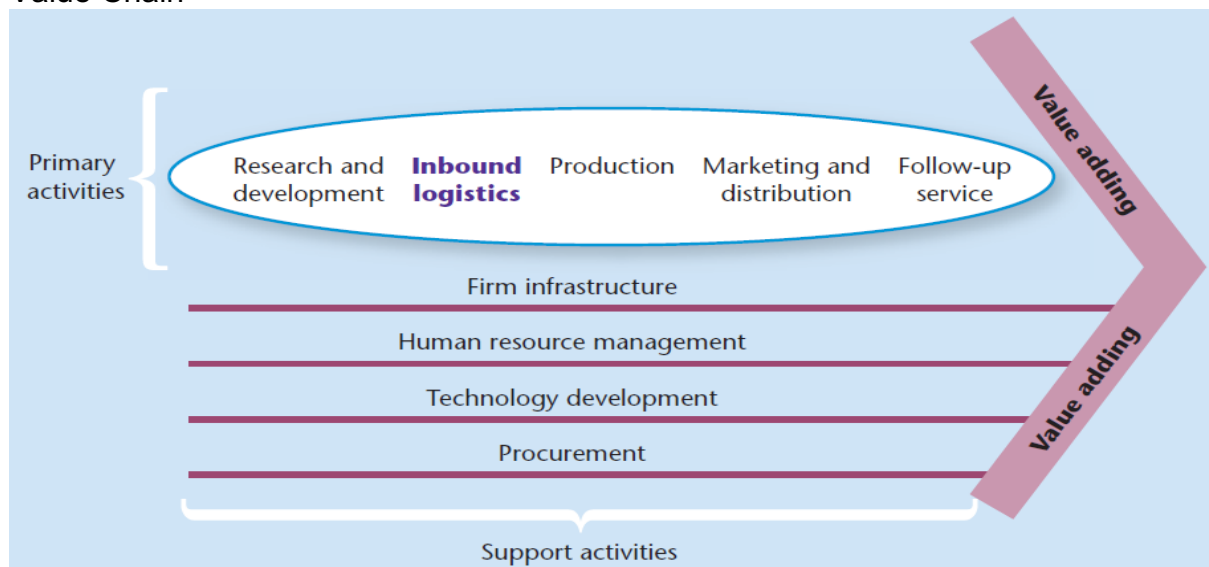
Business Model

Business Model: Defines the organisation's approach to conducting core activities. The management accountant is crucial in modern business, assisting the organisation to formulate and implement its business model.

- **Mission:** Sets out the fundamental reason for the organisation's existence
 - **Vision & Core Values:** Many companies identify a vision statement and core values, which guide the achievement of the company mission.

Business Strategy: The company identifies the primary ways in which the mission, vision and core values are to be pursued.

Value Chain



Manufacturing Context

Types of Companies

Manufacturing: Take raw materials and produce new products from them.

Service: Provide a service such as airlines, hospitals, repair shops, law firms, CPA firms.

Retailers: Merchandising companies sell products that someone else has manufactured.

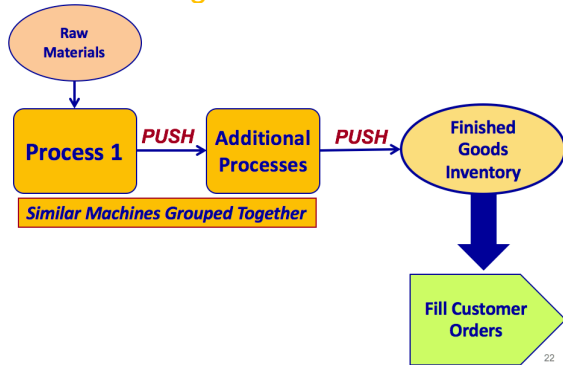
Inventories in tradition Environment

Inventories serve as buffers in case of unexpected demand for products or unexpected problems in production.

1. Raw Materials
2. Work-In-Process

3. Finished Goods

Manufacturing In Tradition Environment



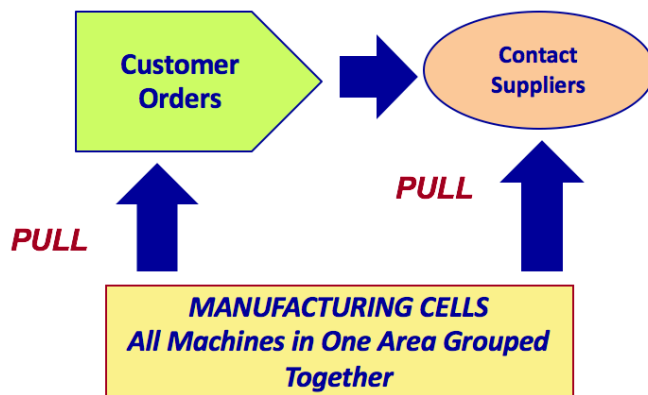
Lean Production and JIT Environment

Lean Production – A system focused on eliminating waster associated with holding more inventory than required, making more product than needed, over processing a product, moving products further than required and waiting.

Just-In-Time – having raw materials arrive just in time to be used in production and for finished goods inventory to be completed just in time to be shipped to customers

Benefits include:

1. Reduced Waste And Scrap
2. Improved Product Quality
3. Lower Overall Production Costs (Although The Costs Of Raw Materials May Increase In Some Cases)
4. Lower Labour Costs
5. Reduced Inventory
6. Reduced Processing Time, And
7. Increased Manufacturing Flexibility



Manufacturing vs Non-Manufacturing Costs

Manufacturing Costs

- Costs incurred in the manufacture of a product typically consisting of; direct materials, direct labour and manufacturing overhead.

Direct Materials – materials that can be directly and conveniently traced to a particular product or other cost object and that become an integral part of the finished product.

- The amount of direct materials used in making products can usually be accurately measured by engineering studies, and the accounting systems of most companies are capable of tracing the materials used and the costs of those materials to specific products.

Direct Labour- the labour cost (including fringe benefits) of all production employees who work directly on the product being made or service being provided.

Manufacturing Overhead- All costs incurred in the factory that are not feasibly classified as direct materials or direct labour,

-Indirect materials such as welding material, glue, screws, etc.

-Indirect labour such as factory maintenance workers and factory cleaners

- Manufacturing overhead also includes utilities, depreciation of factory equipment and buildings, rent, repairs and maintenance, insurance and other factory costs.

- Manufacturing costs are also called product costs or inventoriable costs because they attach to products as they go through the manufacturing process

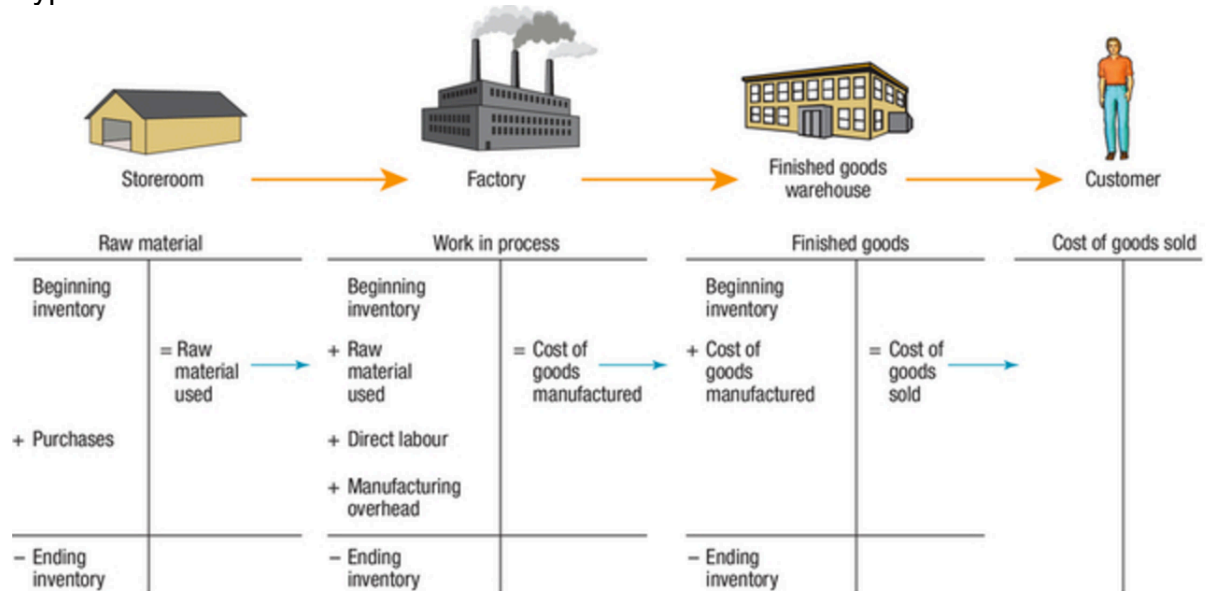
Non-manufacturing Costs

- Costs that are incurred outside the plant or factory and typically categorised (R&D, design, distribution, selling, after sales service and administrative costs) – expensed in the income statement.
- Non-manufacturing costs also include rent, insurance, taxes, utilities and depreciation of equipment when used in selling and administrative activities.

Cost Flows in a Traditional Manufacturing Environment



Typical Cost Flows and T-Accounts



Cash flows in a tradition manufacturing environment

