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Unit 5: Management Accounting (Core)

U5-A1

In a series of 2 for this unit  
Learning outcome 1-4

# Financial Accounting



- ▶ The preparation of documents for external audiences primarily centres on the production of the annual accounts of an organisation. This means filing accounts to meet existing legislative requirements for reporting and taxation. For Public and Third sector organisations, production of annual accounts is necessary to meet legislative requirements for transparency of operation.
- ▶ For example hospital trusts produce annual accounts and reports to demonstrate how public money is being spent.

Read More-<https://www.accountingtools.com/articles/what-is-the-difference-between-financial-and-managerial-acco.html>

# Management Accounting



*Management accounting is the application of the principles of accounting and financial management to create, protect, preserve and increase value for the stakeholders of for-profit and not-for-profit enterprises in the public and private sectors. (CIMA, Official Terminology, 2005)*

- ▶ It is the use of internal financial information by middle and senior managers to monitor and control day-to-day business. Reports are produced throughout the reporting year-typically monthly-and are used as part of the range of tools for report, monitor and control performance.
- ▶ Critically, management decision-making is predicted on these financial reports.
- ▶ Management accounting is the process of identification, measurement, accumulation, preparation, communication leading to managerial decisions.

Read More- <http://smallbusiness.chron.com/differences-between-financial-accounting-management-accounting-3985.html>



## Important Tools and Techniques used in Management Accounting

1. Financial Planning
2. Financial Statement Analysis
3. Cost Accounting
4. Fund Flow Analysis
5. Cash Flow Analysis
6. Standard Costing
7. Marginal Costing
8. Budgetary Control
9. Revaluation Accounting
10. Decision-making Accounting
11. Management Information System
12. Statistical Techniques
13. Management Reporting
14. Historical Cost Accounting
15. Ratio Analysis

Read More-

<https://accountlearning.com/tools-and-techniques-of-management-accounting/>

Sample



# Different types of Management Accounting Systems:

- Cost accounting systems
- Inventory Management systems
- Job costing systems
- Price-optimising systems

Read More- <https://accountlearning.com/marginal-costing-advantages-and-disadvantages/>

Sample

# Types of Management Accounting Reports



## Cost Reports

This is done by taking all raw product costs, overhead, labour and any additional costs into consideration. The totals are divided by amounts of products produced. All of this information is summarised in a cost report. This report allows managers the ability to see the cost prices of goods versus selling prices. It helps managers plan and control profit margins

## Budgets

One main element of managerial accounting is the preparation of budgets. Budgets are typically created by using prior years' budgets and adjusting to future projections. A company's budget lists all sources of revenues and expenses. A company tries to accomplish its goals and objectives while staying within budgeted amounts. Managers often look into new vendors to use as suppliers of raw materials to save money. They also find ways to increase sales while decreasing expenses.

## Performance Reports

Managerial accountants use budgets to compare actual expenditures and revenues to budgeted amounts. The differences calculated are analysed when determining new budgets and all information regarding these amounts is listed on a performance report. Performance reports are calculated every year; however, some companies create them monthly or quarterly. These reports help managers plan for future demand in production as well as cost increases.

## Other Reports

Other reports are also used and prepared by managerial accountants. Order information reports are used to compare orders placed to orders received. These reports indicate backlog information and if the orders placed were enough needed. These reports also summarize if too many orders of specific products were ordered, therefore forcing the company to sit on unused products not needed at the time. Business situation or opportunity reports are also created, which help managers make decisions regarding current and future business situations.

Read More: <https://bizfluent.com/list-7609485-types-managerial-accounting-reports.html>

# Revenue expenditure could include:

<b>Capital Expenditure</b>	<b>Revenue Expenditure</b>
Incurred in <b>acquiring or improving permanent assets</b> not meant for resale. May add to value of an existing asset	Is a <b>routine expenditure</b> incurred in the normal course of business and includes cost of sales and maintenance of fixed assets.
<b>Increases earning capacity</b>	<b>Maintains</b> the earning capacity
It is normally a <b>non-recurring</b> outlay.	It is usually a <b>recurring</b> item
It produces <b>benefit over several years.</b> <b>Thus a small part is charged</b> to income statement as depreciation and the rest <b>appears in the balance sheet</b>	It is <b>consumed within an accounting year i.e. benefits only one year.</b> <b>Thus</b> entire amount is <b>charged to income statement. Does not appear in the balance sheet.</b>
Is an item of balance sheet	Shown in Trading and profit & loss A/c

- ▶ Employee costs (e.g. salaries, wages, business expenditure (travel, hotels etc.))
- ▶ Property costs (mortgage/rent)
- ▶ Materials, Plant and Machinery
- ▶ Support services (admin, insurance and IT)
- ▶ Storage costs
- ▶ Selling costs (marketing and advertising)
- ▶ Transport and delivery costs
- ▶ Depreciation costs
- ▶ Maintenance costs

Revenue expenditure includes all recurring expenses that contribute to running the organisation, whereas capital expenditure is money spent to improve profitability or to reduce revenue expenditure.



# Different Types of Cost Classifications

Variable costs: costs that move with changes in the volume or activity of the business.

Fixed costs: costs that remain constant in the short term irrespective of the level of activity.

Direct costs: costs that are not directly attributable to a product or process.

Indirect costs: costs that are not directly attributable to a product or process.

Capital costs: costs of acquiring or upgrading physical assets such as property, industrial buildings or equipment.



# Different Types of Financial Statements

It is possible to group the various types of financial statements into seven major categories:

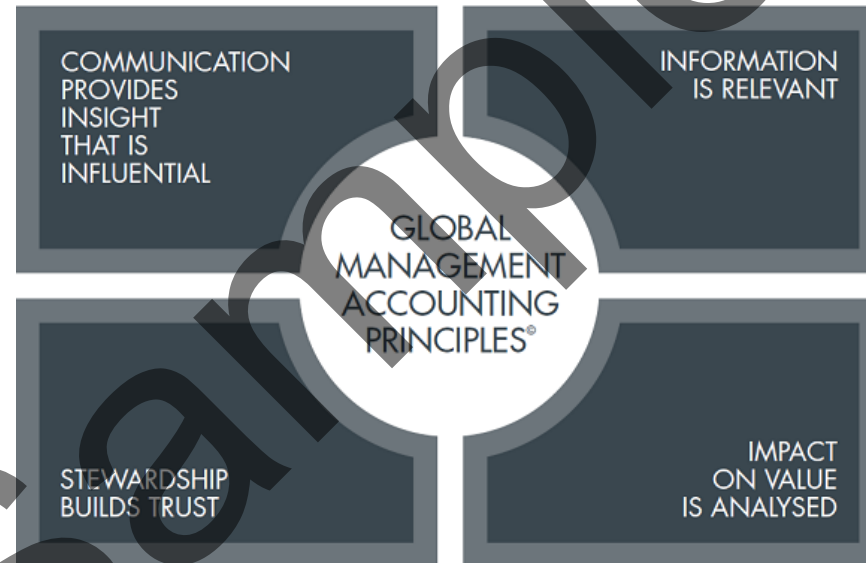
- ▶ Income Statements
- ▶ Statement of recognised income and expense
- ▶ Balance Sheet
- ▶ Cash Flow Statements
- ▶ Notes to the accounts
- ▶ Auditors report
- ▶ Periodic Summary

Sample

# Management Accounting Principles



- ▶ Communication provides insight that is influential
- ▶ Information is relevant
- ▶ Impact on value
- ▶ Trust



Read More-<https://www.accountingweb.com/aa/standards/the-4-global-management-accounting-principles-your-company-can-adopt>

The ten most used management accounting tools across the whole survey are shown in figure

**Figure 1: Most used tools (percentage of respondents)**



Read More:

[http://www.cimaglobal.com/Documents/Thought\\_leadership\\_docs/CIMA%20Tools%20and%20Techniques%2030-11-09%20PDF.pdf](http://www.cimaglobal.com/Documents/Thought_leadership_docs/CIMA%20Tools%20and%20Techniques%2030-11-09%20PDF.pdf)

# Further Reading

- ▶ DRURY, C. (2015) *Management and Cost Accounting*. 9th Ed. Cengage Learning.
- ▶ EDMONDS, T. and OLDS, P. (2013) *Fundamental Managerial Accounting Concepts*. 7th Ed. Maidenhead: McGraw-Hill.
- ▶ HORNGREN, C., SUNDEN, G., STRATTON, W., BURGSTALLER, D. and SCHATZBERG, J. (2013) *Introduction to Management Accounting*. Global Ed. Harlow: Pearson. (This text is available electronically and is supported by access to an online course)
- ▶ SEAL, W. et al (2014) *Management Accounting*. 5th Ed. Maidenhead: McGraw-Hill.
- ▶ PATTERSON, P (2002). *Cost Reduction and Control Best Practices: The Best Ways for a Financial Manager to Save Money*. London: John Wiley & Sons.