

# Unit 22: Management Accounting

<b>Unit code</b>	<b>Y/618/5069</b>
<b>Unit level</b>	<b>5</b>
<b>Credit value</b>	<b>15</b>

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## Introduction

Management accounting is a profession that supports management decision making, planning and performance management systems. Management accountants provide expertise in financial reporting and control to assist management in the formulation and implementation of an organisation's strategy by providing appropriate financial information and undertaking related accounts administration.

The overall aim of this unit is to develop students' understanding of the scope and purpose of management accounting. The focus of the unit is on critiquing cost and management accounting techniques and using management accounting to monitor and evaluate company performance in complex operating environments.

Students will explore the significance of variance analysis and the application of different costing approaches. The contribution of the management accounting function in setting and negotiating performance measures across an organisation will also be analysed. On successful completion of this unit, students will be in a position to support an organisation to create value through effective decision making. Students will also have the fundamental knowledge and skills needed to progress to a higher level of study.

## **Learning Outcomes**

By the end of this unit students will be able to:

- LO1 Explore the nature, source and purpose of management accounting information
- LO2 Evaluate management accounting techniques to inform optimal resource allocation and decision making
- LO3 Analyse actual and standard costs to control and correct variances
- LO4 Evaluate how the management accounting function contributes to performance measurement and monitoring.

## Essential Content

### LO1 Explore the nature, source and purpose of management accounting information

*Nature of management accounting information:*

The attributes of good information.

*The difference between data and information.*

The application of Big Data and analytics for organisations, presenting and interpretation of data.

The transforming impact of new cloud-based technologies, e.g. increased functionality, accuracy, processing and reporting of accounting information.

Role and purpose of cost and management accounting compared to financial accounting.

Management information systems at operational and strategic levels, including Executive Support Systems (ESS), Management Information Systems (MIS), Transaction Processing Systems (TPS) and Decision Support Systems (DSS).

*Sources and purposes of management accounting information:*

Internal and external sources and the application of technology in collecting and processing management accounting information, including intranet, extranet, cloud-based technologies.

The purpose of management accounting to plan, inform decision making and control and evaluate business activity.

The impact of a changing business environment on management accounting.

Users, uses, limitations and risks of management information.

Risk management and issues of cyber security.

### LO2 Evaluate management accounting techniques to inform optimal resource allocation and decision making

*Cost classification:*

Including by function, direct and indirect, fixed, variable, stepped fixed and semi-variable.

*Cost and management accounting techniques:*

Accounting for materials, labour and overheads for optimal resource allocation.

Materials, including costs of ordering and monitoring inventory, optimal order quantities, re-order levels, first-in-first-out (FIFO), last-in-first-out (LIFO) and average cost (AVCO) methods.

Labour, to include direct and indirect costs, different remuneration methods, labour efficiency and turnover metrics.

Overheads, including direct versus indirect overheads, absorption, re-apportionment.

Capital budgeting techniques, including Net Present Value (NPV), Internal Rate of Return (IRR), Discounted Cash Flow (DCF) and pay back periods.

Techniques, including compare absorption and marginal costing approaches to profit determination, cost-profit-volume analysis.

Software applications to support the application and presentation of management accounting analysis, e.g. Microsoft Excel, Google Sheets.

Alternative costing approaches, including activity-based costing (ABC) and total quality management (TQM).

**LO3 Analyse actual and standard costs to control and correct variances**

*Actual and standard costs:*

The purpose and principles of standard costing and the link to absorption and marginal costing.

Determining actual and standard costs and variances.

Theoretical and practical distinction between adverse and favourable variances.

Calculate and interpret variances for sales, materials labour and overheads.

*Controlling and correcting variances:*

The role of variance analysis in identifying actual versus budget variations.

Integrating variance analysis into budget monitoring across an organisation.

Reporting systems for monitoring and controlling variances.

**LO4 Evaluate how the management accounting function contributes to performance measurement and monitoring.**

*Performance measurement:*

Financial vs non-financial performance measures.

The wider role of performance measurement and links to strategic, operational and tactical objectives and organisational mission.

Influence of economic and market conditions, and government and regulatory restrictions on performance measurement.

Implications for the cost and management function: negotiating, agreeing and monitoring financial and non-financial key performance indicators (KPIs) across the organisation relating to costs, resource utilisation, profitability and service quality.

*Monitoring performance and reporting:*

Importance of monitoring and control of activity in the organisation to improve performance, take corrective action, identify inefficiencies and empower decision makers.

Role of benchmarking in monitoring performance and reporting.

Using digital technologies to report on and present performance, providing real-time presentation, comparability and transparency.

Importance of good communication skills and visual representation in reporting on and presenting cost and management information.

## Learning Outcomes and Assessment Criteria

Pass	Merit	Distinction
<b>LO1</b> Explore the nature, source and purpose of management accounting information		<b>D1</b> Critically evaluate the significance of management accounting information for exceeding stakeholder expectations in order to achieve competitive advantage.
<b>P1</b> Examine the different ways in which an organisation will use accounting information to meet organisational objectives.  <b>P2</b> Explore the purpose of management accounting information for different stakeholders to maximise performance and minimise risk.	<b>M1</b> Evaluate the role of management accounting information in supporting decision making and meeting internal and external stakeholder needs and expectations.	
<b>LO2</b> Evaluate management accounting techniques to inform optimal resource allocation and decision making		<b>LO2 and LO3</b>  <b>D2</b> Justify the impact of using different management accounting techniques, including variance analysis on resource allocation, risk minimisation and profit maximisation.
<b>P3</b> Produce schedules demonstrating application of cost and management accounting techniques, using appropriate software applications.  <b>P4</b> Evaluate the utility of management accounting techniques to inform decision making and optimal resource allocation.	<b>M2</b> Critically assess alternative management accounting approaches and techniques in supporting the achievement of organisational objectives.	
<b>LO3</b> Analyse actual and standard costs to control and correct variances		
<b>P5</b> Produce cost statements to identify variances from data provided.  <b>P6</b> Explore the concept of variance analysis and its importance for budgetary control.	<b>M3</b> Evaluate the impact of identifying variances to control, monitor and improve organisational performance.	

Pass	Merit	Distinction
<p><b>LO4</b> Evaluate how the management accounting function contributes to performance measurement and monitoring.</p>	<p><b>M4</b> Apply management accounting approaches to performance measurement and monitoring using a range of appropriate benchmarks.</p>	<p><b>D3</b> Adjust management accounting approaches to support performance measurement and monitoring in complex operational environments.</p>
<p><b>P7</b> Critique management accounting approaches to measuring and monitoring performance.</p> <p><b>P8</b> Apply management accounting approaches to monitor and control performance in the operational environment.</p>		

## Recommended Resources

### Textbooks

- DRURY, C. (2015) *Management and Cost Accounting*. 9th Ed. Cengage Learning.
- SEAL, W. et al (2018) *Management Accounting*. 6th Ed. Maidenhead: McGraw-Hill.
- WEETMAN, P. (2019). *Financial and Management Accounting: An Introduction*. Harlow: Pearson.
- ZIMMERMAN, J. L. (2019) *Accounting for Decision Making and Control*. 10th Ed. New York: McGraw-Hill.

### Websites

<a href="http://www.accaglobal.com">www.accaglobal.com</a>	Association of Chartered Certified Accountants (General reference)
<a href="http://www.accountingcoach.com">www.accountingcoach.com</a>	Accounting Coach Online free courses (General reference)
<a href="http://www.cimaglobal.com">www.cimaglobal.com</a>	Chartered Institute of Management Accountants (Tutor Resource Hub)
<a href="http://www.icaew.com">www.icaew.com</a>	Institute of Chartered Accountants in England and Wales Financial Reporting (General reference)

### Links

This unit links to the following related units:

*Unit 5: Accounting Principles*

*Unit 10: Recording Financial Transactions*

*Unit 21: Financial Reporting*

*Unit 23: Financial Management*