

Pearson BTEC Level 4 Higher Nationals in Business (RQF)

Unit 5: A1
Management Accounting
Information Pack 1

in a series of 2 for this unit

Learning Outcome 1&2



INTRODUCTION

The overall aim of this unit is to introduce the fundamentals of management accounting which apply to the wider business environment and the organisations which operate within that environment. Students will explore how management accounting uses financial data to aid planning decisions, and the monitoring of control of finance within organisations.

On successful completion of this unit students will be able to present financial statements in a workplace context and be able to assist senior colleagues with financial business planning. In addition, students will have the fundamental knowledge and skills to progress onto a high level of study.

1. *Demonstrate an understanding of management accounting systems.*
2. *Apply a range of management accounting techniques.*

Sample

GUIDANCE

This document is prepared to break the unit material down into bite size chunks. You will see the learning outcomes above treated in their own sections. Therein you will encounter the following structures.

Purpose

Explains *why* you need to study the current section of material. Quite often learners are put off by material which does not initially seem to be relevant to a topic or profession. Once you understand the importance of new learning or theory you will embrace the concepts more readily.

Theory

Conveys new material to you in a straightforward fashion. To support the treatments in this section you are strongly advised to follow the given hyperlinks, which may be useful documents or applications on the web.

Example

The examples/worked examples are presented in a knowledge-building order. Make sure you follow them all through. If you are feeling confident then you might like to treat an example as a question, in which case cover it up and have a go yourself. Many of the examples given resemble assignment questions which will come your way, so follow them through diligently.

Question

Questions should not be avoided if you are determined to learn. Please do take the time to tackle each of the given questions, in the order in which they are presented. The order is important, as further knowledge and confidence is built upon previous knowledge and confidence.

Challenge

You can really cement your new knowledge by undertaking the challenges. A challenge could be to download software and perform an exercise. An alternative challenge might involve a practical activity or other form of research.

Video

Videos on the web can be very useful supplements to your distance learning efforts. Wherever an online video(s) will help you then it will be hyperlinked at the appropriate point.

Information Pack

LO1 Demonstrate and understanding of management accounting systems.

Introduction to Management Accounting

Accounting could be defined as “The process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information”.

In other words, accounting is concerned with providing both financial and non-financial information that will help decision-makers to make good decisions. To understand accounting, you need to know something about the decision-making process, and also to be aware of the various users of accounting information.

During the past two decades many organizations in both the manufacturing and service sectors have faced dramatic changes in their business environment. Deregulation and extensive competition from overseas companies in domestic markets has resulted in a situation where most companies now operate in a highly competitive global market. At the same time there has been a significant reduction in product life cycles arising from technological innovations and the need to meet increasingly discriminating customer demands. To succeed in today’s highly competitive environment, companies have made customer satisfaction an overriding priority. They have also adopted new management approaches and manufacturing companies have changed their manufacturing systems and invested in new technologies. These changes have had a significant influence on management accounting systems.

Who uses accounting information?

Accounting is a language that communicates economic information to people who have an interest in an organization. These people (known as stakeholders) fall into several groups (e.g., managers, shareholders and potential investors, employees, creditors and the government) and each of these groups has its own requirements for information:

- Managers require information that will assist them in their decision-making and control activities., for example, information is needed on the estimated selling prices, costs, demand, competitive position and profitability of various products/services, that are provided by the organisation.
- Shareholders require information on the value of their investment and the income that is derived from their shareholding.
- Employees require information on the ability of the firm to meet wage demands and avoid redundancies.
- Creditors and the providers of loan capital require information on a firms ability to meet its financial obligations.
- Government agencies such as the central statistical office collect accounting information and require such information as the details of activity, profits, investments, stocks (i.e. inventories), dividends paid, the proportion of profits absorbed by taxation and so on. In addition, the government taxation

authorities require information on the number of profits that are subject to taxation. All this information is important determining policies to manage the economy.

Real World View

Accounting information for human resource professionals.

People Management, the journal of the Chartered Institute of Personnel and Development (CIPD), provides an example of the importance of accounting information to human resources (HR) professionals. The article touts the oft-cited expression ‘people are our greatest asset’, but questions how many HR professionals appreciate the full costs of people in an organization.

According to Vanessa Robinson of the CIPD, HR professions shouldn’t merely say ‘people are our great-est asset’ but look at the income statement and see what they cost! The problem is that many HR professionals may not have sufficient basic accounting knowledge to understand basic accounting principles. They need to be familiar with the basic financial statements –the income statement, statement of financial position and the statement of cash flows – as well as understand basic cost concepts. What this article tells us is something we as accountants already know – that accounting is a communication medium, a language indeed, that not everyone understands. Having said that, while HR professionals may not think they require fluency in accounting, they do need to make business decisions which are underpinned by sound financial information, e.g., recruit and retain staff. Understanding accounting information (rather than just accepting it from the accountants) will benefit HR and other professionals in an organization.

Questions

1. What kind of accounting information would you communicate to HR professionals ?
2. What format would you use?

The need to provide accounting information is not confined to business organizations. Individuals sometimes have to provide information about their own financial situation; for example, if you want to obtain a mortgage or a personal loan, you may be asked for details of your private financial affairs. Non-profit-making organizations such as churches, charitable organizations, clubs and government units such as local authorities, also require accounting information for decision-making, and for reporting the results of their activities. For example, a tennis club will require information on the cost of undertaking its various activities so that a decision can be made as to the amount of the annual subscription that it will charge to its members. Similarly, municipal authorities, such as local government and public sector organizations, need information on the costs of undertaking specific activities so that decisions can be made as to which activities will be undertaken and the resources that must be raised to finance them.

As you can see, there are many different users of accounting information who require information for decision-making. The objective of accounting is to provide sufficient information to meet the needs of the various users at the lowest possible cost. Obviously, the benefit derived from using an information system for decision-making must be greater than the cost of operating the system.