

ACC2200- Management Accounting- Tutorial 2

Cost items, concepts and classifications

Tutorial schedule: 1.5, 1.6, 1.7, 1.27, **1.35**

Review Question 1.5

Briefly explain the difference between financial accounting and management accounting.

Financial accounting is the practice of preparing and reporting accounting information for parties outside the organisation, whereas **management accounting** is an information system that produces the information required by managers to create value and manage resources.

The **users of the information** generated from financial accounting is different from that of management accounting. Internal users such as managers and employees of all levels are likely to use the management accounting information, external shareholders, creditors, banks, securities exchange, trade unions and government agencies would use the financial information. There are no **accounting standards** or external rules imposed, information is generated to satisfy manager's needs. However, there are Accounting Standards and corporations law to regulate the content of external financial reports. Financial accounting is **transaction-based accounting** system while management accounting draws information from both financial and non-financial sources depending on the needs of the manager. The **nature** of management accounting is past, current and future-oriented; subjective; relevant; timely; and supplied at various levels of detail to suit managers' specific needs. The nature of financial accounting is past, reliable, verifiable, not timely, not relevant and highly aggregated.

Review question 1.6

Explain the key differences between cost accounting and management accounting.

Cost accounting is a system that estimates the cost of goods and services, as well as the cost of organisational units, such as departments. **Management accounting** is an information system that produces the information required by managers to create value and manage resources. Cost accounting is useful to both management and financial accounting, however there are differences between cost accounting and management accounting.

Basis	Cost Accounting	Management Accounting
Scope	Provides information for managerial users mainly	Provides all types of information, has a broader scope
Emphasis	Focuses on cost ascertainment and cost control to maximise profits	Mainly focused on planning, controlling and decision making to maximise profit
Techniques employed	Costing and variance analysis, marginal costing and cost volume profit analysis, budgetary control, uniform costing	All the techniques of cost accounting but in addition it also uses ratio analysis, fund flow statement, statistical analysis etc.
Evolution	Its evolution is mainly due to the limitations of financial	Due to the limitations of cost accounting
Statutory requirement	Cost records maintenance has been made compulsory in selected industries as notified by the government from time to time.	Is purely voluntary and its use depends upon the utility of management.

Review Question 1.7

The “Real life” scenario titled ‘increasing competitive pressures faced by Asian airlines’ in the section ‘Australian organisations in the twenty first century’ highlights the turbulent competitive environment faced by many airlines. Explain how such events might impact the type of information provided by management accountants in those organisations.

A management accountant needs to identify the issues first, which in this case is the increasing competition and pressure to reduce costs. Hence, needs to give the organisation they belong to a clear idea of the fore coming costs the business is likely to incur. Plan and control the business activities accordingly to remain competitive in the airline industry.

Review Question 1.27

Management accounting information

Identify management accounting information that could assist managers in making each of the following decisions. Remember to consider non-financial information where relevant.

1. A marketing manager is considering whether or not to launch a new product.
 - Past sales performance
 - Competitor's products and prices
 - Cost of developing the product
 - Potential sales growth
 - Profitability from introducing the new product
 - Additional staff and equipment needs
 - Market share at present
2. A travel company is considering whether it should increase its staff numbers by one-third.
 - Present productivity per unit's vs possible growth with increase comparison
 - Possible growth in sales
 - Cost of hiring more staff
 - Profitability to the business after hiring
3. A production team leader is considering whether an important customer order should be produced next week, or during overtime hours tonight.
 - Cost of labour
 - Profitability to the business (does it breakeven or surplus the cost of labour)
 - Previous delivery timeframes (on average when do we deliver this customer)
4. A fast food chain is considering a site for a new store.
 - Cost of developing
 - Competitors growth from the creating the website
 - Potential growth from creating the website

Review Question 1.35

You have just been appointed as the management accountant for Close Up and personal (CUP), a company that sells pottery items, jewellery and cool clothing, featuring personal digital photos. This company employs a team of 12 designers who design the pottery items, jewellery and clothing. These products are manufactured by independent companies. CUP runs an on-line store, where customers can order, upload photos for their personalised items and pay for their order. Following the order received from the customer, CUP prints the customer supplied photo onto the ordered products, packages them and delivers them to the customer through an external courier service.

Required:

1. Identify the specific types of management accounting information that may be needed by the following employees, on a monthly basis, to help them control operations.
 - a) Manager of the on-line store
 - b) Manager of the designer team
 - c) Marketing manager responsible for planning advertising campaigns and identifying customer needs
 - d) Manager who manages and renegotiates contracts with the outside manufacturers.

2. The managing director of CUP is interested in developing more sophisticated planning systems but has some doubts over the value of undertaking strategic planning. Prepare a report outlining the importance of planning systems. In your report, consider the interrelationships between the objectives of the company, its strategies and short-term planning systems. Explain how management accounting information may assist in improving the planning function of the company