

LEVEL/ LEFEL 4

MODULE CODE: LCBB4001
ACCOUNTING FUNDAMENTALS

ASSESSMENT: 2

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Task 1.

Differentiate between revenue expenditure and capital expenditure with reference to International Accounting Standards.

All expenditures that are of a capital nature go to a record and depreciation expenses are claimed on them and every one expenditure that is of a revenue nature goes to the profit and loss account and is written off within the current amount.

REVENUE EXPENDITURE – is expenditure incurred on running expenses .

CAPITAL EXPENDITURE – is expenditure incurred on the purchase, alteration or improvement of non-current assets. (2015 V. S., n.d.)

BASIS	REVENUE EXPENDITURE	CAPITAL EXPENDITURE
1.Purpose	It is incurred for acquisition of fixed assets for use in business.	It is incurred for running of business.
2.Capacity	It increases earning capacity of the business.	It is incurred for earning profit.
3.Period	Its benefit extends to more than one year.	Its benefit is exhausted within the year
4.Debited	It is debited to an Asset Account.	It is debited to an Expense account.
5.Nature of account	It is an Asset Account.	It is an expense account.
6.Depreciation	It is shown on the Balance Sheet.	It is shown in the Trading or Profit and Loss Account.
7.Examples	Cost of Land and Building, Furniture and fixture etc.	Depreciation of furniture and fixture, salary, rent etc.

Task 2.

A: Cost Accounting vs Management accounting, Characteristics, similarities and differences.

Management accounting developed from the studies of accountancy. each management and price accounting were developed to be used internally. basically each are one conception simply that management accounting was developed from accountancy and management accounting enclosed the utilization of business enterprise data.

Cost accounting – involved concerning distinctive, gathering and analysing value of assorted things that features value of product or services and price of activities. It provides solely quantitative data to the users of the reports. accountancy is especially quantitative .

Management accounting uses value, money and non-financial data to arrange reports for internal use. The scope of management accounting is wider however accountancy is one in all its disciplines. Management accounting is quantitative and qualitative.

Management accounting has there fore grownup in ambition and is involved a lot of senior deciding inside companies. sensible management accounting needs the management accounting to own sensible qualitative data. (Article, 2019)

Two kinds of organisations area unit usually concerned – producing organisations concerned within the production of products e.g.

Carbury and service organisations concerned within the provision of services e.g. ba forms of cost accounting – producing organisations – basic producing value, customary cost accounting, method cost accounting, job cost accounting.

Service organisations – customary cost accounting, job cost accounting.

Cost classification – classified by kind, function, direct/indirect prices (overheads), product value, amount value.

Classification by kind – material value, labour value, alternative expenses,

Classification by operate – production and non-production value.

Classification by kind – material prices and labour value.

Material prices area unit the value of materials purchased for the assembly of products, value of stationary, cartridges, cleansing materials, etc.

Labour value area unit things like workers salaries and wages, bonuses, pensions contributions.

Other expenses area unit value that aren't material or labour and includes telephone, rentals, epreciation, costs, etc.

Direct cost – value that be handily derived to a product, services or department, for example value of paint in the paint department within the assembly line. value of materials which will be derived to outputs area unit direct prices e.g purchase costs for the materials, discounts, etc

direct labour value area unit labour value which will be directly derived to the product which includes wages paid and indirectly labour area unit labour prices that can't be directly derived to outputs for instance floor supervisors in a industrial plant that produces completely different types of products and general managers. (Orleans, 2017)

Indirect cost – cost which will be indirectly allotted to the assembly of a good or service, for example price of national advertising to an airline might not be directly connected to a selected flight. price of materials that can't be derived to outputs e.g. rags, lubricants, etc.

Production cost are that are incurred in producing a product and these may be material and labour prices incurred within the production of products and services. Non production costs are the price like body prices, marketing and distribution costs and finance costs.

Three main forms of costs that are direct materials, direct labour and overheads.

There are manageable and uncontrollable prices. manageable costs are cost of the food that are used for a building as an example, however will the manager manages food that they're exploitation within the building however a cost of advertising for example:

Cost behaviour is that the manner the value behaves because the volume of activity changes. prices are classified on behaviour as fixed and variable costs. charge doesn't amendment despite what number units are made. Variable value are those value that will increase or decreases with a amendment in activity. (Orleans, 2017)

Difference :

Cost accounting is concerned with cost accumulation for inventory valuation to meet the requirements of external reporting and internal profit measurement.

Management accounting relates to the provision appropriate information for decision-making, planning, control and performance evaluation. (Extracted from Cost and Management accounting by Colin Drury, Sixth edition).

Basis	Cost Accounting	Management Accounting
Scope	Limited to providing value info for social control uses	Broader scope as it provides all types of information
Emphasis	Mainly on value ascertainment and value	Mainly on coming up with, dominant and higher

	management to make sure most profit	cognitive process to maximise profit
Techniques employed	Standard costing and variance analysis, marginal costing and cost volume profit analysis, budgetary control, uniform costing etc.	All the techniques of accounting however additionally it also uses ration analysis, fund flow statement , statistical analysis, operation analysis , arithmetic, social science etc.(whatsoever facilitate management in tasks)
Evolution	Its evolution is principally because of the limitation of financial accounting	Its evolution is due to the limitation of cost accounting.
Statutory requirement	Maintenance of value records has been created obligatory in selected industries as notified by the gov. from time to time.	It is strictly voluntary and its use depends upon the utility of management.

(Cost & management accounting on 2, n.d.)

Task 2 B.

Management accountants ordinarily assist management within the formulation and implementation of strategy. Their observe ordinarily needs them to partner with management to formulate ways, to assist devise systems of organisational designing and management and performance management and to produce experience in monetary reportage and management, etc. These departments ordinarily work with the chief financial officer and also the controller and treasury departments at intervals businesses. the controller is answerable for accountancy and value management problems whereas the financial officer worries real financial problems like things like a way to raise capital, a way to manage or invest excess money, however should the corporate keep a big income positions, etc (Cost & management accounting on 2, n.d.)

Management accountants give info for higher cognitive process, assists and directive and dominant activities, motivates managers and workers towards their organisations goals and

advise them on a way to align management actions to the company's strategic goals, assesses the company's competitive position, etc.

Task 3.

In cost centers- the activities are going to be involved with the generation of current expenses. The managers during this center is principally involved with putting a limiting on expenditures.

Revenue centers- the generation of revenues is that the main actuation for the corporation. The manager has specific revenue targets however to not check expenses.

Profit centers - combines each revenues and value centers. Here the manager to blame runs the unit to get revenues however to limit current expenses. On reflection, the manager here supervisors revenues and expenses departments and tries to maximise profits.

Investment center is observing current revenues and expenses and strategizing and proposing long term investment choices that aligns with the functioning of the assorted units. Associate in Nursing investment center is inquisitive about observing the business and dictating what has to be done to make sure the business will invests and cash in of opportunities within the long-term.

All these centers have a precise level of responsibility to make sure they supervise and make sure the investments they create area unit properly controlled

Task 4.

Discuss the differences between management and financial accounting.

Management accounting - is forward looking and is task with controlling the activities of a business to improve it moving forward while financial accounting looks entirely to the past.

Financial accounting - is the process is that of getting ready monetary statements that companies' use to point out their monetary performance and position to individuals outside the corporate, together with investors, creditors, suppliers, and customers. (Tally Solutions, n.d.)

Basis	FINANCIAL ACCOUNTING	MANAGEMENT ACCOUNTING
1.Users	External person who make financial decision	Managers who plan for & control an organization
2.Time focus	Historical perspective	Future emphasis
3.Verifiability vs relevance	Emphasis on objectivity & source document.	Emphasis on satisfying management needs.
4.Precision vs timeliness	Emphasis on “fair” report of operation and financial position.	Emphasis on getting information to managers when they need it.
5. Subject	Primary focus is on companywide reports.	Primary focus is on segment reports.
6. Rules	Mus follow the GAAP/IFRS and prescribed format.	Not bound by outside rules
7.Requirement	Mandatory for external reports	Not mandatory

Management accounting is mainly concerned with cost analysis and budgeting functions aimed at aiding management in decision making while financial accounting is concerned with recording of financial data related to transactions and the use of this data in the preparation of periodic financial statements for presentation to external parties.

The differences between management accounting and financial accounting are, therefore, inexhaustible due to the differences in their time focus ,subject, rules requirement and the difference in the users of their reports.

Additional differences that are not mentioned in the discussion above include the fact that in financial accounting, management should be concerned about the sufficiency of disclosure in statements while in management accounting, the management should be worried about the

effects the management reports are bound to have on employees and the organization as a whole (Geoffrey, 2009, p. 1).

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