

MANAGEMENT

ACCOUNTING

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TABLE OF CONTENTS

INTRODUCTION 1

MAIN BODY 1

CONCLUSION.....5

REFERENCES 6

INTRODUCTION

Managerial accounting refers to process to analyse business cost and the operations for preparing the internal financial records and reports and for accounting to help managers to make decisions for achieving the goals and objectives of business (Otley, 2016). In other terms, it refers to process of using financial and the costing data and then making effective translation of data into the useful and meaningful information for executives and management of the business. Report will involve critical analysis of needs and the process of preparing the budgets. This will be providing detailed analysis about the modern budgeting processes like activity-based budgeting and balance score card.

MAIN BODY

Management accounting is being used from centuries to calculate the costs of product. Accounting techniques were even used by the households and businesses like preparation of cash budgets or activity based. These budgeting techniques helped them to spend as their available and framed budgets. This helped businesses and households in preventing going out of cash due to overspending. As the time have changed management accounting techniques have evolved and enhanced as per the needs of businesses. Till data various management accounting theories and concepts have been developed by various authors.

Managers of the enterprise use management accounting information's for properly informing themselves before any decision is taken about the matter within the organisations. This helps management in managing and performing the control functions (Quattrone, 2016). As per "Institute of Management Accounting" it is a profession involving partnership in management decisions making, to devise planning and performance management system and to provide expertise in the financial reporting & controls for assisting the management in formulation and the implementation of organisational strategy.

Management accountants looks at events happening in and around the business considering needs of business. These data and information's are used for emerging estimates. Cost accounting refers the process of translating these data and estimates into knowledge which will be used ultimately for guiding the decision-making process. Consistent to role in modern corporations, managerial accounts are having dual reporting responsibility. As strategic partner & as provider of decisions based over operational and financial information's. Managerial accountants have responsibility of managing the business teams and at same time for reporting

relationship & responsibilities entity's finance organisation (Bromwich and Scapens, 2016). Management accountants provide for planning, forecasting, performing variance analysis, to review and monitor costs inherent in business are one having dual accountability for both finance and business teams.

Money and time are the scarce resources for all organisations and individuals therefore the effective and efficient use of resources requires proper planning. Planning and control together are required for enhancing the business. Budgets are the tools used by managers for planning and controlling use of the limited resources. Budget refers to a plan showing objective of company and the manner in which management will be acquiring and using these resources for attaining the objectives.

Corporations, not for profit organisation and government units use different type of accounting budgets. The responsibility budget is designed for judging performance of individual segments or managers. Capital budgets are prepared for evaluating long term capital project like additions of the equipment's or relocation of plants. Master budgets of company consists of planned operating and financial budgets. Operating budgets help in planning the future earning and it results in projected income statements. Financial budgets help management to plan for financing of the assets and it results in projected statements of financial position.

Budgeting process involve planning for the future profitability as earning reasonable returns over resources is primary objective of company. Company should devise methods for dealing with uncertainty of future. Most of the companies devise blueprints for actions that will be taken given foreseeable events which might occur.

A budget shows operating plan of the management for coming periods. It formalizes plans of management in the quantitative terms. It forces every level of management of thinking ahead, in anticipating results and taking actions for improving the poor results. It also motivates the individuals for striving and achieving the stated goals. Corporations could use the actual budgets for comparison and evaluating the individual performance. For example standard variable costs for producing of personal computers at an enterprise is budget figure. The figure is than compared with actual costs for producing customers for evaluating the performance of production managers of computers and employees engaged in the production activities of business (Weetman, 2019).

There are various other benefits resulting from the preparation & use of budgets like:

- Activities of the business could be better coordinated.
- Managers of the business are aware about the plan and direction on which to proceed.
- It helps in making employees cost conscious that helps in developing habit of conserving resources.
- Company reviews organisation plans and modifies them whenever essential.
- Budgets helps in fostering vision which otherwise would not have developed.

Planning processes results in formal budgets providing opportunity to various level of management for thinking through and committing future plans.

There are various kinds of budgets that are prepared by the organisations

Activity Based Budgeting

Activity based budgeting refers to process for creation of blueprints or the financial plans in advance that will be acting as yardstick to address individual activities. These activities are to be carried by organisation with the given resources using the research tools & for allocating resources as per the priorities in budgets (Mahal and Hossain, 2015). The allocation is made as per the expected costs which are to require for spending.

Components and process of activity-based budgeting

- It begins with identifying the activities that revolves around resource consumptions. Activities are classified mainly as main and secondary activities denoting degree of importance and involvement of activity to organisation based on their priority. Main activities refer to activities that are related directly with objectives and necessary.
- Secondary activities refer to activities creating added values to customers and changing the preference in favour of organisations that involve significant resources.
- After defining activities next step is of identifying the method of distributing resources and costs accordingly between activities that are done by inducers. These are factors to define consumption levels among the different activities.
- There are mainly three inducers influencing the decisions are time representing duration for processes, resources required for each activity and the last is number of time activities are repeated after gathering all facts for calculating the appropriate costs.

Advantages

- Budgeting takes focus over forward activities instead of looking towards the previous activities that is common feature under the traditional based budgeting. It lays emphasis over the steps to be undertaken and the area of improvement instead of reviewing things that were done earlier and allocating costs accordingly.
- Budgets are sourced based on the resources and activities allowing better insights over inefficiencies in process and source of imbalance. This helps managers in finding areas on which improvements can be made for making the jobs more efficient (Rodrigues, 2016).
- In a dynamic environment this budget has practical approach and make easier for managers and employees for communicating and executing activities in time bound way. This also evaluates performance by fixing the accountabilities for specific activities

Balance Score Cards

Balance score card refers to performance results and targets showing performance of organisation in meeting objectives of stakeholders. This is management tool recognising organisational responsibilities of different stakeholders' groups like suppliers, employees, customers, community, business partners and shareholders. Different stakeholders are having different needs and desires which are required to be balanced by organisation. Concepts of balance score cards is of measuring the performance of organisation in different activities.

Balance score cards used and developed in most of the companies. It is used primarily at the top management levels for supporting the development of organisational strategies (Tan, Zhang and Khodaverdi, 2017).

This is approach seeking to provide comprehensive and balanced frameworks for judging performance of organisation different perspectives. It also helps management in assisting and controlling organisations in unique and modern way.

Balance score cards have four perspective of analysis.

Financial perspective – This perspective indicates whether the operations and strategy of company adding value for shareholder.

Customer perspective – It involves seeing business from eyes of consumers. It involves identifying the extent to which expectations of customers are met by company.

Business & production process perspectives – The points attention on performance of the major internal processes driving the organisation.

Learning & growth perspectives

This perspective considers the potential future performance of organisation directing the attention on basis of future success infrastructure and people of the organisation.

Advantages

- BSC facilitates understanding and communication of business strategies and goals at every organisational level.
- It brings vision and strategy of organisation to the focus of management preventing deviations (Ibrahim, Yulianti and Christian, 2018).
- It integrates non-financial and financial goals & performance measures in single system that is not considered by traditional controlling methods.

CONCLUSION

The study helps in coming at conclusions that the budgets are very important for the business enterprises. Budgets are been prepared by organisations for having a proper and planned structure to be followed by organisations. The budgets help in preventing the unnecessary expenditures of company and allocating resources over productive activities.

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