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Assessment 2

Moodle: Accounting Fundamentals

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Task 1

In business, firms have to spend money in their business operations in order to get profit. A large amount of investments is commonly invested by the companies into business in order to get high returns. Expenditure on fixed assets can be divided into capital expenditure and revenue expenditure. Both of the expenditures are seem very similar but they are actually different from one another. Capital expenditure is the expenditure on acquisition of non-current assets which will benefit current and future period of the business operation. Capital expenditure covers all costs of acquisition, such as delivery, legal charges, installation and replacement costs. Revenue expenditure incurred to maintain the existing earning capacity of non-current assets for the purpose of the trade of business. For example, if a company purchases a new machine, the amount will be treated as capital expenditures including the installation cost, and all amount used to update and repair the machine will be treated as revenue expenditures. It is important to distinguish between these in order to calculate the net profit correctly to ensure the smooth operation of a business.

Task 2

a) Management accounting also is known as managerial accounting and can be defined as a process of providing financial information and resources to the managers in decision making. Management accounting is only used by the internal team of the organization, and this is the only thing which makes it different from financial accounting. In this process, financial information and reports such as invoice, financial balance statement is shared by finance administration with the management team of the company. Objective of management accounting is to use this statistical data and take a better and accurate decision, controlling the enterprise, business activities, and development . Financial accounting is the recording and presentation of information for the benefit of the various stakeholders of an organization. Management accounting, on the other hand, is the presentation of financial data and business activities for the internal management of the organization.

One of the definitions of Management accounting says that it is the application of professional skills and knowledge in the preparation of financial and accounting information in a manner in which it will assist

the internal management in the formulation of policies, planning, and control of the operations of the firm.

- The basic function of management accounting is to help the management make decisions. There is no fixed structure or format for it.
- Financial accounting, costing, business analysis, economics, etc are some tools and techniques of management accounting.
- The only need for management accounting is that the data should serve its purpose, which is helping the management take important business decisions.

There are many objectives of but the prime objective is to assist the management team of an organization in improving the quality of their decisions. Purpose of management accounting is to help the managerial team with financial information so that they can execute business operations and activities more efficiently. Following is the list of all benefits of management accounting –

- Decision Making
- Planning
- Controlling business operations
- Organizing
- Understanding financial data
- Identifying business problem areas
- Strategic Management
- **Decision Making**

This is the most important benefit of the process of management accounting. In fact, it is the main purpose of it. In this form of accounting, we use techniques from all fields like costing, economics, statistics, etc.

It provides us with charts, tables, forecasts and various such analysis that makes the process of decision making easier and more justified.

- **Planning**

Managerial accounting does not have any strict timelines like financial accounting. It is, in fact, a continuous and ongoing process.

So financial and other information is presented to the management at regular intervals like weekly, monthly or sometimes even daily.

Hence managers can use this analysis and data to plan the activities of the organization. For example, if the recent data shows a dip in the sales for a certain region, then the sales manager can advise his team and plan some action to rectify the situation.

- **Identifying Business Problem Areas**

If some product is not performing well, or some department is running into unexpected losses, etc. managerial accounting can help us identify the underlying cause.

Actually, if the management is diligent and their data and reports are frequent, they can identify the problem very early on. This will allow the management to get ahead of the problem.

- **Strategic Management**

Concept of management accounting is not mandatory by any law. So it can have its own structure according to the company's requirements. So if the company feels certain areas need more in-depth analysis or investigation it can do so freely.

This allows them to focus on some core areas. The information presented to them allows them to make strategic management decisions. Like if the company wishes to launch a new product line, or discontinue an existing one, management accounting will play a huge part in this strategy.

b)

Boards should place goals that will take a minimum of five to 10 years to achieve in the long-term goal planning stage, using the mission statement as a guideline. Long-term goals form the broad strategy that maps out a long-term plan for the organization's purpose. The broad approach to long-term planning requires boards to monitor and evaluate long-term plans on a regular basis and adjust them accordingly. Long-term goals should have periodic milestones or benchmarks for the board to use in evaluating their progress. Most boards define the timeframe for short-term goals as goals they'd like to achieve in under five years and more likely within one to three years. Short-term goals have an operational component, with action plans for the immediate future. They also form the action plan for achieving each of the long-term goals. Action plans usually contain daily or weekly activities. Beyond the obvious, knowing the differences between short- and long-term planning

can help nonprofit navigate their paths from the present to the future with demonstrated progress toward achieving their goals. Every board needs directors who are great visionaries. Establishing and working toward specific short- and long-term goals helps boards bring these visions to life. Long-term goals are inherently strategic. This characteristic is why long-term goals shape the overall direction of the organization. The success of achieving long-term goals is a reflection of how well the board conforms to the organization's mission. By contrast, short-term goals are a reflection of how well the organization's programs are performing. Effective board directors know that it takes establishing, monitoring and achieving short- and long-term goals to help the organization progress.

Task 3.

1. Cost Centre:

A cost or expense centre is a segment of an organisation in which the managers are held re-sponsible for the cost incurred in that segment but not for revenues. Responsibility in a cost centre is restricted to cost. For planning purposes, the budget estimates are cost estimates; for control purposes, performance evaluation is guided by a cost variance equal to the difference between the actual and budgeted costs for a given period. Cost centre managers have control over some or all of the costs in their segment of business, but not over revenues. Cost centres are widely used forms of responsibility centres. In manufacturing organisations, the production and service departments are classified as cost centre. Also, a marketing department, a sales region or a single sales representative can be defined as a cost centre. Cost centre may vary in size from a small department with a few employees to an entire manufacturing plant. In addition, cost centres may exist within other cost centres. For example, a manager of a manufacturing plant organised as a cost centre may treat individual departments within the plant as separate cost centres, with the department managers reporting directly to plant manager. Cost centre managers are responsible for the costs that are controllable by them and their subordinates. However, which costs should be charged to cost centres, is an important question in evaluating cost centre managers.

2. Revenue Centre:

A revenue centre is a segment of the organisation which is primarily responsible for generating sales revenue. A revenue centre manager does not possess control over cost, investment in assets, but usually has control over some of the expense of the marketing department. The performance of a revenue centre is evaluated by comparing the actual revenue with budgeted revenue, and actual marketing expenses with budgeted marketing expenses. The Marketing Manager of a product line, or an individual sales representative are examples of revenue centres.

3. Profit Centre:

A profit centre is a segment of an organisation whose manager is responsible for both revenues and costs. In a profit centre, the manager has the responsibility and the authority to make decisions that affect both costs and revenues (and thus profits) for the department or division. The main purpose of a profit centre is to earn profit. Profit centre managers aim at both the production and marketing of a product. The performance of the profit centre is evaluated in terms of whether the centre has achieved its budgeted profit. A division of the company which produces and markets the products may be called a profit centre. Such a divisional manager determines the selling price, marketing programmes and production policies. Profit centres make managers more concerned with finding ways to increase the centre's revenue by increasing production or improving distribution methods. The manager of a profit centre does not make decisions concerning the plant assets available to the centre. For example, the manager of the sporting goods department does not make the decisions to expand the available floor space for the department. Mostly profit centres are created in an organisation in which they (profit divisions) sell products or services outside the company. In some cases, profit centres may be selling products or services within the company. For example, repairs and maintenance department in a company can be treated as a profit centre if it is allowed to bill other production departments for the services provided to them. Similarly, the data processing department may bill each of company's administrative and operating departments for providing computer-related services. In profit centres, managers are encouraged to take important decisions regarding the activities and operations of their divisions. Profit centres are generally created in terms of product or process which has grown in size and has profit responsibility. In some organizations, profit centres

are given complete autonomy on sourcing supplies and making sales. However, in other organisations, such independence may not be found. Top management does not allow profit centre divisions to buy from outside sources if there is idle capacity within the firm. Also, the top management may be hesitant to part with designs and other specifications to maintain quality and safety of the product and due to fear of losing the market that the firm has already created for its products.

4. Investment Centre:

An investment centre is responsible for both profits and investments. The investment centre manager has control over revenues, expenses and the amounts invested in the centre's assets. He also formulates the credit policy which has a direct influence on debt collection, and the inventory policy which determines the investment in inventory. The manager of an investment centre has more authority and responsibility than the manager of either a cost centre or a profit centre. Besides controlling costs and revenues, he has investment responsibility too. 'Investment on asset' responsibility means the authority to buy, sell and use divisional assets.

Task 4.

Both financial and management accounting has many differences in a number of ways. The management accounts provide key financial, accurate and statistical information to managers for helping in their day to day short term decisions, but financial accounting produces the annual financial reports for the external stakeholders. Management accounting gives information which helps the management of the organization in planning and control, but the financial accounting main motive is to provide useful information to creditors of the company, stakeholders and many others.

Management accountant's main objective is to prepare many kinds of reports. Some of these reports show that how well the business units and the managers have performed. Some provides day to day updates on main indicators which are sales of the company, capacity utilization check, orders received etc. Some analytical reports show the problems such as downfall in profitability of the product. But financial accounting is focused on producing quarterly and annual financial statements.

Financial accounting reports to those individuals who are outside the organization such as lenders, regulators, owners and tax authorities. But the managerial accounting reports to the inside of the organization for motivating staff, directing the managers, performing performance evaluation, decision making and controlling. Financial accounting focuses on the summaries of the financial consequences in past activities. But the managerial accounting focuses on the decisions which directly affect the future. Verifiability and objectivity of the data in financial accounting are emphasized. But in managerial accounting the items which are relevant in decision making process is emphasized. For the whole organization only the brief data is prepared in financial accounting. But in managerial accounting a detailed reports are prepared about the products, the customers, employees of the company and for every departments.

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