

Accounting Fundamental – Second Assignment

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LCBB4001 Accounting Fundamental

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London

Date: 27/04/2020

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Accounting Fundamentals Assessment 2

Introduction

Accounting is the recording of financial transactions together with the storing, retrieving, sorting, summarising and presenting of the results through various reports that have been analysed. Financial accounting is an essential part of accounting that focuses on the presentation of financial information through financial statements such as balance sheet and income statements which are prepared in line with the generally accepted accounting principles. The assignment seeks to explore the differences between capital expenditure and revenue expenditure with reference to the International Accounting Standards. It further explores the nature and purpose of cost and management accounting, the specific characteristics of cost and management accounting and the similarities and differences of cost and management accounting. Finally, it explore how both concepts and practises are used in the development of the short term and long-term strategies of the organisation, the responsibilities of the management accountants when developing the management and managing business activities, cost processes of two cost centres and the differences between management and financial accounting.

Difference between revenue expenditure and capital expenditure with reference to International Accounting standards.

Capital expenditures are the expenses incurred by an organisation for a long term benefit. They range from the acquisition of new assets by the organisation, maintenance of the capability or increment in the capacity of a long term asset (Atrill, 2015). This is aimed at increasing the efficiency and productivity of the organisation. Revenue expenditure are the expenditures sustained by the organisation to manage and run the day to day activities. These

are short term expenses which include expenditures for generating revenue to the organisation and expenditures for maintaining the revenue generating assets (Mathur, 2011).

A capital expenditure is related to fixed assets and is non-recurring in nature as they are to be consumed over their useful life. This is charged gradually via depreciation over a long period of time. A revenue expenditure is recurring as it is used up within a short period of time in the business operations. This is charged to expense in the current period or shortly afterwards (Lanen et al., 2010).

Capital expenditures do not have an impact in the business revenue. They are incurred to enhance the value of existing assets. Revenue expenditures can reduce the business revenue of an organisation. This affects the operation and generating activities of the organisation. Moreover, they do not enhance the value of existing assets (Drury, 2016).

Capital expenditures appear as assets in the balance sheet and in the income statement as depreciation expenses. Revenue expenditures appear in the income statement of the organisation. These include repairs and maintenance expenses and cost of goods sold (Weetman, 2010).

Nature and purpose of cost and management accounting.

Cost accounting is the appropriate collection, classification and apportionment of expenditure in order to accurately ascertain the costs of goods and services. It aids in the easy analysis of the total costs per unit of a product. The management is able to budget for the costs and compare them with the actual costs. Cost accounting provides the correct analysis of the cost of operations and the various elements of costs (Atrill, 2015). The management is able to ascertain the profitability levels of each products and an advice on how it can be maximised. Cost accounting is also important in evaluating the performance of the organisation. It helps

in the presentation and interpretation of data effectively while determining the performance trends. It deploys the use of variance analysis to show the profitability levels.

Management accounting is the proper presentation of accounting information to enhance effective decision making and creation of policies that will guide day to day operations. It equips the management with knowledge as a result being able to maximise or minimise profits. It combines the various accounting techniques and systems to meet the needs of the management. It is regarded as both a science and an art. Management accounting entails the summarization, presentation and analysis of figures thus being a science (Lanen et al., 2010). It also entails interpretation of data, making of human judgement and giving meaning to data hence being termed as an art. It is instrumental in planning and forecasting through the techniques of budgets and setting of standards. It provides comparative analysis of data and interpretation. This assists the management to make proper decision and formulate effective policies. Management accounting coordinates and retrieves data from the various departments and the performance discussed henceforth improving the overall organisational performance.

Specific characteristics of cost and management accounting

Management accounting has a couple of its specific characteristics. It has a decision making system where managers employ its techniques to frame policies and manage day to day operations. It is future oriented as it incorporates the qualitative and the quantitative data to project the future course of actions of an organisation (Mathur, 2011). It employs comprehensive use of special techniques and concepts. These techniques include standard costing, cash flows, ratio analysis. Cost accounting is cost oriented as it records the incomes and expenditures incurred in production of goods and services. It forms a basis for the ascertainment and control of costs. It presents its statistical data of estimates to facilitate the comparisons between the budgets and the actual performance.

Similarities and differences of cost and management accounting

Similarities

Cost and management accounting provide accounting information for appropriate and informed decision making. The management is also able to formulate future business policies based on the information obtained from cost and management accounting. Cost accounting provides information of the cost of production per unit that helps the management in making decision of the units to be manufacture. Management accounting is dynamic and it enhances the overall decision making of the organisation (Drury, 2016).

Management and cost accounting both forecast future production. Cost accounting forecasts the estimated materials, labour and other manufacturing costs to be used in production. Management accounting predicts the total number of units to be manufactured and sold (Weetman, 2010).

Both cost and management accounting incorporate the technique of budgets. Cost accounting budgets are developed through the analysis of the past costs to project for the future production costs estimates. The information is then included in the managerial budget as part of the estimated revenues and expense (Atrill, 2015).

Differences

Management accounting involves comprehensive aspects of the business. The aspects range from decision making, performance analysis, and risk management (Lanen et al., 2010). It looks at all the departments of an organisation Cost accounting revolves around with cost computations and control of the costs of the organisation. It is majorly done by the production departments of an organisation.

Cost accounting has a narrow scope as it only analyses quantitative information related to costs. Management accounting is broader in its scope as it analyses both qualitative and quantitative aspects of the business (Mathur, 2011).

Management accounting is crucial in the making of strategies and plans of the organisation. The management depend on the accounting information to effectively project the future of the organisation. Cost accounting is effective in preventing the organisation from incurring extra additional cost afar from budgeted (Drury, 2016).

Responsibilities of management accountants when managing business activities and developing management

Management accountants are tasked with an important role of preparation of financial statements and reports. They work along with other managers to examine the reports to make decisions for the company. They review the company's budgets, revenues and expenses to enable the company perform better (Mathur, 2011).

Management accountants are involved in the long term and short term planning of the organisations. They scrutinize the performance data and the economic performance. They evaluate and predict the performance managers. The analysis is presented to the senior management to assist in operational decision making (Drury, 2016).

Management accountants supervise the lower level accountants and other staff in their offices. They guide them in the preparation of income statements, cash flow statements and balance sheets (Weetman, 2010). The accountants validates the reports to eliminate irrelevant information. They educate executives, interested parties such as investors and explain the relevant needed information for decision making.

Management accountants oversee and participate in the creation of a financial system. The system manages the information and is able to create and avail the information when

required. It creates routine reports that guide the day to day operations of the organisation.

These reports are forwarded to the managers to effective and timely decisions (Atrill, 2015).

The management accountants carry out risk analysis. They advise on the optimal debt equity mix of the company. This is to aid the company's revenues be able to service their debts.

They also assist the management decide on the appropriate form of financing that will maintain the optimal capital structure Lanen et al., 2010).

Cost processes of two cost centres

Cost centre is a department in a company that identifies costs and finds possible ways of keeping them as low as possible (Mathur, 2011). It eliminates and reduces unwanted costs the company may incur. The cost centres also costs to generate profits. For example, the customer service department will not directly contribute to the profits of the organisation (Drury, 2016). The department helps them understand the needs and wants of customers thus reducing the costs. The costs incurred by a cost centre may be aggregated into a cost pool and allocated to other units. The performance is evaluated through the comparison of budgeted costs to the actual costs. Variance analysis is done through price and quantity variance.

Profit centres are organisational units that analyse income generating activities. They maximise the revenue streams and explore possible ways of increasing profits. The management uses theses centres to decide on the allocation of additional funding or shut down low performing units (Weetman, 2010). It enables managers make decision on revenue generating activities and expenses incurred. The performance is measured through the comparison between the budget and the profit. It creates the budget for the costs and revenue with the actual cost and revenue. The profits can also be evaluated through analysis of how much profit is generated per unit. It can also be measured through the percentage of gross

profit, net profit. The ratio of the expenses and the sales is used to determine the actual sales and actual revenue

Differences between management and financial accounting

Financial accounting analyses accounting information to create financial statements. These statements are shared within the organisation and with other interested users. Management accounting is concerned with reports from various processes of the organisation. It looks at the profits, cost production reports and the customers (Atrill, 2015).

Financial accounting reports focus on the outcome and pay no attention to the systems generating profits. It reports on the efficiency and profitability of the business. Management accounting on the other hand analyses the operations and systems of the organisation. It aims at finding ways of improving profitability levels and solving the issues that arise in the organisation (Lanen et al., 2010).

Financial accounting utilises historical data of the already achieved activities and profits. It creates its financial statements from these historical data and does not project on the future cash flows (Mathur, 2011). Management accounting is future oriented as it uses the available data to forecast on the future performance of the organization. It uses budgets and forecasts to formulate policies that will help achieve the desired future performance

Financial accounting requires that recordings to be clearly and evidences such as receipts and invoices attached to prove the information to be correct. The statements to be valid it must comply with the various accounting standards. Management accounting deals with estimates. It does not have to adhere to any standards as the information compiled is for internal organisational purposes (Drury, 2016).

Financial accounting requires that financial statements have to be issued at the end of an accounting period. In the statements valuation is done through looking at the assets and

liabilities (Weetman, 2010). Management accounting reports may be done frequently when need arises. This is when the most relevant information is needed by the managers. It does not look at the value of the assets and liabilities but their productivity and their impact to the organisational profit and performance.

Conclusion

Accounting is a vital department of the organisation. It aids the management to carry out wise and effective decisions. Through cost accounting the manager can know the total cost and be able to estimate and plan for the production of the company. Management accounting analyses all the aspects of the organisation while making reports that will help in the overall decision making. Financial accounting prepares financials statements that show the performance of the organisation at large.

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