

ACCOUNTING FUNDAMENTAL ASSESSMENT 2

Student name: Milena Petrova

Student ID: 1916909

Lecture's name: Rexon Nting

Introduction

Accounting fundamental is a common concept in the business field despite the size of business. It is the act of keeping records regarding any related financial activity in an organisation. This is the significant role of accountants in business who analyse the financial status of a business and advice the managerial staff accordingly.

Task 1

Identifying the significant differences between capital expenditure and revenue expenditure

The first difference is on the transaction recording of capital expenditure and revenue expenditure. In a company, some expenses are capital in nature and are recorded in a balance sheet and on the credit side of the account, liability expenses are recorded (Mohanty, 2017). For the case of revenue expenditure, revenue expenses are recorded in a profit and loss account and are only related to the present.

The second difference is the expenses that are long-term in nature are considered to be capital expenditures. An example of this is buying land for investments. On the other hand, short-term costs are revenue expenditure (Dalbor et al. 2013). For services such as insurance and machinery maintenance can be good examples of the revenue expenditure.

Another difference between capital and revenue expenditure is the durability of goods acquired. Goods with a more extended magnitude are categorised as capital expenditures while those with a shorter extent are revenue expenditure.

Other differences between the two expenditures include;

The difference in recurrence of the expenditures tends to differentiate the capital expenditure from the revenue expenditure. Capital expenditures are non-recurrent, while revenue expenditure is recurrent (Teo, 2019). Buying an asset such as land it only requires a one-time payment where else maintenance of an organisation machinery is done after a certain period.

Capital expenditure improves the state of an organisation, while revenue expenditure maintains the excellent state of an organisation.

Task 2

A: looking at the details of cost accounting and management accounting. Their characteristics, similarities and differences

Cost accounting is the principal accounting concept that leads to the growth of management accounting. Both the accounting concepts are used in the internal operations of an organisation. The cost accounting concept deals with the financial matters of an organisation while management accounting most deals with non-financial issues.

Cost accounting is done by collecting financial details of an organisation, identifying financial issues and analysing the details. All these commercial activities help in providing accurate information about matters that benefit the organisation (Drury, 2013). Cost accounting monitors the cost spent on acquiring goods and service related to organisation production. Cost accounting deals with the quantitative operations of an organisation.

Management accounting relies on both the financial and non- financial details of the company to bring the qualitative and quantitative nature of this type of accounting. This means that management accounting is not an independent aspect of accounting since it relies on the information given by the cost accounting department of the organisation (Parkel, 2012). Management accounting is the department of an organisation that deals with making decisions of a company. Therefore, these two accounting departments should ensure that the information used is accurate and reliable.

The cost accounting and management accounting are significant concepts in a business such as banks and microfinance institutions.

In manufacturing company, the concept of cost accounting deals with manufacturing cost that deals with the production cost, the standard cost which involves the maintenance and making the product better, process cost and job cost which includes salaries for the labourers. For service rendering companies, standard cost and job cost are the only costing concept involved.

The cost has been classified by function and types. Under types, price includes; material cost and labour cost. For the purpose, the significant cost involved in production and non-production cost. Material Cost is the cost that an organisation incurs after purchase goods used for production while labour cost is the expenses of wages and salaries for the company's employees.

Looking at direct cost, these are the expenses that a company incur on direct services rendered. On the other hand, indirect damages are expenses incurred from alternative productions that take place within an organisation. This cost includes the advertising charges, transportations charges of staff and other maintenance services that may take place in the company.

There are common similarities between cost accounting and managerial accounting. Some of these similarities include the functionality cost and management accounting which is making decisions that govern the operations of a company. The two aspects also work towards achieving a common goal of the company that boost the production rate, thus improving the company competitiveness. The cost and management accounting ensures there is profit maximisation that eases the company operations.

Task 2 B

Development of short term and long term strategies of organisations using managerial and cost accounting

Management accountants play a significant role in the management of an organisation. They are the formulators and the implementers of new strategies that boost the organisation production. They ensure that the planning and control department function efficiently to provide detailed information that boosts the performance of the organisation. With a proper system organisational setup, long term and short term strategies can be easily implemented.

The cost accounting and managerial accounting departments work together to identify issues that might be affecting the operations of an organisation and provide investment solutions that boost the significant cash flow of a company. The managerial accounting mostly deals with the short term strategies of the organisation since most of its operations requires immediate actions, unlike

cost accounting that is related with long term strategies that even last for a while before fully implemented (Bragg, 2012). Cost accounting maintains the financial performance records of a company which help the managerial accounts make a decision related to future investment that the organisation can make.

An evident link between the two departments of an organisation shows the interrelation of operations conducted by cost accounting and management accounting. Managerial accounting relies on the financial information provided by the cost accounting department. This then indicates the necessity of accuracy while making financial records used to making future production decisions. With proper knowledge and decisions making, the organisation can make massive progress in terms of production and competitiveness in the market.

Task 3

The role of management accountants in the cost centre and profit centre

In most organisations, there are various departments known as business centres which play different roles in the operations of an organisation. All centres are answerable to the managerial accountants who come up with strategies meant to improve the performance of an organisation. Some of these centres include the cost centre, profit centre, revenue centre and investment centre. In this case, the study will look into the cost centre and profit centre.

In the cost centre, most of the activities depend on the current expenses of production. The main issue in this centre minimisation of production cost to boost the profitability of sales. The managers of this centre ensure a smooth operation of activities of this centre which provides cost expenditure

of the production process (wild et al. 2015). Therefore the cost centre department monitors and ensures the centre is clean and organised to boost the company's performance.

For-profit centre, this department works closely with the revenue centre and cost centre. The department management accountants work to improvise ways that more revenue is earned by the organisation at the least cost possible. This is a significant centre in businesses since the performance of the company mostly relies on managing accountants' decisions.

However, all the centres in business play a significant role related to the production and sales performance which are the primary purposes of production organisations.

Task 4

Analysing the differences between management and financial accounting

Some of the differences between management accounting and financial accounting are;

- Management accounting deals with overseeing the company progress in terms of performance using the current and past financial state of a company. In contrast, financial accounting deals with the former state of an organisation.
- The second difference is management accounting is more of an internal business affair, unlike financial accounting which is also used by external organisation's stakeholders who are interested in investing in the company.
- On regulations, managerial accounting seems to be more of an internal factor that is not affected by external regulation bodies' policies which in most cases affects the financial accounting sector (Weetman, 2019). This happens due to the frequent changes made

concerning finance and accounting. A body such as GAAP ensures that for excellent organisation performance, the standard accounting policies must be adhered to for better accounting securities.

- Management accounting depends on general production information of an organisation while financial accounting relies on internal accounting systems. There are specific online programs that ensure economic activities are accurate and clear enough to help in decision making. These online platforms are the QuickBooks online and the Freshbooks which most accountants have embraced.
- The reports of this accounting sector are quite different where managerial accounting report is done in subunit from where after a precise analysis of one department is done a report is written down making a combination of various descriptions. The financial report, on the other hand, is based on financial data which are rigid as compared to managerial accounting information.

An overview of the accounting concepts

Management accountants primary role is strategising and planning future investments that a company. They provide information on the most effective methods that the company can use in implementing innovation for new production. They also evaluate the company capable of performing better in the future and suggest approaches that can be used to improve. It is also the role of the management accountants to identify issues that a company might be facing and provide guidance on the ways to solve those issues. A company with a tremendous competitive advantage is managed by great management accountants who work towards achieving the company goals by performing strong strategic management. These accountants are the same ones who dictate the

pricing of goods, budgeting the production and profit planning which is the most relevant issue in any production organisation.

The most company choose to participate in the global business environment, which comprises of very many competitive companies. For a company to thrive in this kind of an atmosphere, all its cost transactions of production should lead to a profitable outcome for quite an extended period. The senior management of an organisation should closely monitor the development system that is used to create a fast marketing channel at a lower cost. An inventory controls all these organisation activities.

There are several techniques used to ensure management accounting is useful in an organisation; the use of a balanced scorecard is used to making a judgement on performance on financial and non-financial records. It includes the financial statements, customers' suggestions and compliments and learning and innovations. The second technique is the value chain analysis that gives a detailed layout of managing and analysing the whole production process. This helps a company boost and maintain its competitive advantage. Therefore, management accountants should ensure that the value chain is well established. The third technique is the activity-based costing which allows the management accountants to evaluate the cost of each production process, including the price of products. It helps in product price allocation that maximises the profitability of production. The life cycle costing is also a technique that is used to research and develop new strategies in the sales department. The development of this strategy might be costly. This may lead to lack of a proper sales strategy since all companies produce more intending to maximise their profit.

According to Michael Porter, most organisations are ranked according to their cost leader or product differentiator. For cost leader, is whereby a company outdo the competitors by ensuring

that the cost of production is least, but the profit earned is reasonable and the quality of good suits the consumers' preference. Product differentiator is where a good can be expensive than the competitors' product. However, the brand and the quality of the goods in the market, the company still maintain an excellent competitive advantage.

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