

ACCOUNTING FUNDAMENTAL ASSESSMENT 2

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Introduction

Managerial and cost accounting is a common term in the business field where managers use financial accounting to keep financial records of business operations before making decisions on the matters related to the organization. In most cases, managerial accounting is considered to be an external factor of accounting. In contrast, cost accounting is the primary internal accounting that helps solve financial matters, thus considered an internal factor.

There are common cost accounting principles that are applied in any business transaction. These are; money unit assumptions that deal with currency, cost principle where an item should not affect the financial reporting, the matching principle that ensures the business reports balance and materiality principle where wrong transactions are ignored but only if they do not affect the

business financial report (Wild et al. 2015). There are other principles of managerial accounting, which are; full disclosure principle, specific time principle, economic entity principle, and going concerned, just to mention a few.

Task 1**Handling the difference between revenue expenditure and capital expenditure**

Revenue expenditure is the payment or cost of an expense at a certain period of time. An example of revenue expenditure is the cost of goods, payment of services such as maintenance and repairs, salaries of workers, rent, and insurance expenses. Capital revenue is the expense of assets that are expected to regenerate money after a certain time (Bragg, 2012). Examples of capital expenditure are land where a manufacturing company acquires land, which is an asset that will become productive after some time. Building and pieces of machinery are also good examples of capital expenditure.

The differences between the two expenditures include;

- Capital expenditure is a lifetime expense that the cost incurred on fixed assets regenerate profit years after the purchases of the good. While revenue expenditure is a short term expense that is incurred right after being lead the service (Teo, 2019).
- Capital expenditure on fixed assets tends to cost more as compared to revenue expenditure. An assumption can be made that capital expenditure is a cost that exceeds a certain amount, but there is also a difference with some goods where the expenditure relates to revenue expenditure.
- On consumption, there is a great difference between capital expenditure and revenue expenditure. Capital expenditure of an asset only happens once, but the consumption is of a long period, either lifetime consumption or up to the time that the asset is resold at the owner's wish. Revenue expenditure, on the other side, its consumption takes a short

period; an example of this is the insurance services where one has to renew the contract after a certain time may be monthly or annually.

Other differences are;

- Capital expenditure is a non-recurrent expenditure that once the expense is paid for, the expense cannot be incurred again, while revenue expenditure is a recurrent expense.
- Capital expense improves the earning capacity of an asset while revenue expenditure maintains the earning capacity of an asset.

Task 2

Cost accounting nature seems to be the managerial aspect of accounting that shows the general cost of production operations of an organization the main purpose of cost accounting is analysis the cost of operation by defining, measuring, and making reports of the expenses in relation to an organization's performance.

There are certain similarities and differences between cost accounting and managerial accounting. The differences are;

- Cost accounting is the actual sense of keeping financial records and analysing the records of an organization, while management accounting is the general monitoring of an organization that includes financial and non-financial operations that help maintain good production progress.
- Cost accounting offers specific information in regard to an organization's operations where else managerial accounting the information provided might not be certain, most especially the non-financial information.
- Cost accounting deals more with the general progress of an organization that includes keeping a previous and present record to monitor the growth of an organization where else management accounting relates more to the future position of the company where the managers tend to give projections and analyze future occurrences.
- Cost accounting is an independent aspect of business operations where is only deals with the actual financial information, unlike managerial accounting that cannot be successful without the aid of cost accounting; thus, managerial accounting depends on the effectiveness of cost accounting for a better outcome.

- In terms of time, cost accounting requires a short planning time, unlike managerial accounting, since cost accounting works with the daily financial transactions of an organization.
- Cost accounting is a quantitative aspect of business operation where else managerial accounting comprises of both qualitative and quantitative business operations.

The similarities of cost accounting and managerial accounting are that both aspects of accounting help in making concrete business decisions that ensure a smooth flow of business operations. Secondly, both cost accounting and managerial accounting works to achieve a certain goal of improving the growth rate of a business through solving business issues and organizing business transactions to maximize the profitability of the company.

Development of short-term and long term strategies of organizations through managerial and cost accounting

The decisions made by the managerial accounting team of an organization helps in establishing long term and short term strategies that help the organization improve its standard in the competitive market. Looking at the two aspects, managerial accounting majorly deals with the problems that already exist in the organization; that is, they identify and provide solutions to issues, and this shows the role of managerial accounting in making short term strategies. Cost accounting, on the other hand, established the easy progress of the organizations which provide accurate progress of a company (Golini et al. 2015). The records help the organization evaluate the situation of the company and advises it accordingly on making future investments, which are long term decisions related to the company's progress. The record-keeping act in cost accounting helps the managerial team establish the most accurate ways to improve the company's

performance that can be implemented within a short time. An example of this is if a company's profit rate is declining, the company can choose to implement immediate strategies that can help solve the problems that might be experiencing. Therefore, cost accounting exhibits the development of a short term strategy related to the growth of an organization.

The link between cost accounting and managerial accounting brings out the interrelation between the two aspects where the managerial accountants mostly depend on the financial records of cost accounting to make decisions related to organization financial drawbacks. When establishing long term and short term strategies of the company, both management and cost accounting seems to play an effective role in making the organization better.

Task 3**Responsibility of management accountants in developing the management and cost process in cost center and profit center.****Cost center**

A cost center is an organization department where certain managers are allocated the responsibility of monitoring cost and monetary transactions. The center is directly related to ensuring that the expenses of the production of goods match the quality of goods produced. However, the managers of the cost centers are expected to ensure that the production cost of goods is at its lowest cost possible, which then leads to maximization of profit earned by a production (Marjanović et al. 2014). The manager also ensures that the cost center stores are clean to ease the management of the store. Under the cost center, there is a discretionary cost center that differs a bit from a cost center. This is a case the manager is held responsible for faults that take place in the center. This center gives the managerial accounts the responsibility of ensuring that accurate transactions are made. It is important that accountants in this center make regular reviews of financial progress to ensure that the cost and production are effective enough to maximize the profit earned and goods produced satisfies the consumer's needs.

Profit center

For this center, the managers deal with the revenue and cost that yield to profit maximization. This center is a complex department that the managerial accountants are expected to ensure that the expenses are minimized, and the revenues are increased. All these are done to ensure that the organization's goals and objectives are achieved. In this center, managers also have the responsibility of dealing with non-financial business operations, such as establish other profitable

ideas in the business operation to maximize the company's output (Martini, 2011). These managers are expected to keep track of other managers and staff in terms of professional behavior that is a crucial issue in any performing company. They are meant to offer professional motivations that help in improving individual performance. This center helps in efficient use of production cost that leads to profit maximization or losses.

From the two centers, it is easy to identify the roles of management accountants in developing the management and cost of an organization. Management simply implies monitoring the organization activities that help to achieve organizational goals. In any well-performing organization, a well-structured organization system is required to enhance company production and still earn a reasonable amount of profit that helps to run the company. An organization should work towards maintaining a well-performing production structure that also boosts the company's competitive advantage. Due to the high growth of a competitive market, it is also necessary for a company to maintain the quality production of goods that attracts more sales and maintain loyal consumers.

Task 4**The difference between financial and management accounting**

The definition of financial accounting and management accounting brings out one of the major differences between the two types of accounting. Financial accounting is the actual act of correcting data through the creation of financial statements and keeping financial records of an organization. On the other hand, managerial accounting is the general monitoring of accounting and money transactions that takes place in business (Weetman, 2019). These two accounting strategies are studied differently since their certification differs from each other.

Looking into the system perspective of these accounting operations, financial accounting mostly deals with maximizing the profit of an organization while managerial accounting looks into the general production operations of a company. The general production operations include analyzing the risks that a company is prompt to face, the already existing problems, and suggesting better solutions on production operations. Financial accounting produces financial records that are beneficial to both the company's owners and other stakeholders interested in the growth of the company while managerial accounting majors on the internal progress of the company.

Financial accounting is done timely (after a certain period of time, either monthly or annually), while managerial reporting can be done any time the need arises. The financial report gives a piece of detailed information on the general growth of a company while managerial performance deals with specific departments of an organization. In an organization, any financial accounting report is done on the performance of an asset and liability in relation to value, while managerial

accounting only evaluates the value of the assets. In the actual sense, the managerial accounting mostly deals with estimates and approximations while financial accounting deals with facts.

Financial accounting has different transaction modes that include cash transactions, credit transactions, and paper transactions such as receipts and Cheques. The financial transactions are recorded in bookkeeping in the form of sales, purchases, receipts, and payments. In financial bookkeeping, there is a concept known as a double-entry recording concept, which is a form of transaction entry that a different account is expected to correspond with another. Mostly the debit column is recorded on the left side of the account, and the credit column is placed on the right. The assets account is expected to balance with that of the liabilities. There are several accounting softwares that have made accounting recording more accurate and efficient. These softwares are QuickBooks online, and Freshbooks accounts that were established to simplify accounting activities that happen in our daily life. Looking at journal entries and their role in an organization, journal entries provide accurate credit information that is relevant to the income statement of a company. The income statement is what provides the actual benefits earned by a company and the losses incurred.

Any well-performing company must have a very stable, reliable record-keeping systems. The system allows the decision making of the company's operation and enhances the competitiveness of a company. Accounting is relevant even in the smallest business that deals with retailing goods to consumers. Record keeping should be advocated for by accountants.

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