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ACCOUNTING FUNDAMENTALS

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Task 1

According to Maverik, J.B (2019), the difference between revenue and capital expenditures are when the purchases are used. If the expense is ongoing or used in the short term, it means that this is revenue expenditure. In most cases, capital expenditures are one-time purchases that will be used to generate revenue over a long period.

Capital expenditures represent a significant investment of capital for maintaining or expanding the companies business to generate more profits or to gain additional profits. Buying machines or manufacturing equipment, building facilities are capital expenditures (Maverik, J.B., 2019).

Revenue expenditures are short term expenses like salaries, repairs and regular maintenance. The big difference between revenue expenditures and capital expenditures is that the revenue expenses can be tax-deducted in the same financial year that the expense is occurred (Maverik, J.B 2019).

Task 2

a)

Management accounting is developed from the studies of cost accounting, that is why many of fundamental process of cost accounting is similar to management accounting. They are using many similar procedures and techniques of accounting, computation and analysis. Both of them are trying to provide accurate and relevant data and information to help the management in decision making and improving the operational performance of an organisation. The information and statements provided by both, cost accounting and management accounting are prepared concerning a particular period, but not necessarily reported or submitted at the financial year-end. Both of them are mainly used for internal management or by the employees of an organisation. (S. Singh, 2018).

They are two types of most involved organisations – service organisations, involved in the provision of services and manufacturing organisations, involved in the production of goods. In manufacturing organisations costs are, essential manufacturing cost, standard costing, process costing, job costing. In service, organisations are standard costing and job costing (S. Singh, 2018).

Cost classification by type:

- Direct costs - are those who are identifiable with a cost object or a cost centre, cost that be conveniently traced to a product, services or department.
- Indirect costs - are not traceable to cost object or cost centre. Indirect costs are not traceable by a particular product.
- Material costs – direct materials required for the manufacturing of a product.
- Labour costs – wages paid for the workers engaged in the working process.
- Production costs – costs incurred for the production of goods or services.
- Non-production costs – are indirect costs incurred during manufacturing
- Controllable cost - are costs that can be controlled by management actions.
- Uncontrollable cost – are costs that they are beyond the control of a person in a given period of time (The institute of cost accounting India 2012, pp. 13 – 17).
- Variable costs – increasing or decreasing cost linked with the production volume.
- Fixed costs - a cost that does not change with changing of the volume of production (The institute of cost accounting India 2012, p.94)

b)

Management accountants usually assist management in the formulation and implementation of the strategy. Their practice requires them usually to partner with management to formulate strategies, to help develop systems of organisational planning and control, help to performance management and to provide expertise in financial reporting and control (V, Sharma, 2020).

Expect the small companies all medium-sized to big companies or organisations have departments that have to work together to control responsible the cost accounting and its issues. These departments typically work with the chief financial officer and the controller and treasury departments within businesses. While the controller is responsible for cost accounting problem management the treasurer is focused on monetary issues like how to invest cash, how should the company keep its cash flow, how to raise the capital of the company and others (V, Sharma, 2020).

Management accountants provide information for decision making, assists and directing and controlling activities. He motivates managers and employees towards their organisations' goals and advise them on how to align management actions to the company strategic goals, assesses the company competitive position.

Providing information for decision making, controlling activities, assists and directing is part of the duties of management accountants. He motivates managers and employees towards their organisations' goals. He guides the management actions, and converting them to company strategic goals, evaluating the company competitive position (V, Sharma, 2020).

Task 3

The cost centre is defined area of responsibility under the control of managers in the department, mainly concerned with costs limitations (J.R. Dyson, 2017 p. 292).

Revenue centre is operating unit responsible for generating sales. The managers in revenue centres have sale targets, but they are not checking the expences (S.Brag, 2018).

A profit centre combines revenue and cost centres. Here managers can calculate profit and loses in all profit centres in the department (J.R. Dyson, 2017 p. 292).

An investment centre is responsible for major investment decisions expect that it has similar functions as a profit centre (J.R. Dyson, 2017 p. 292).

All centres have their responsibilities that they have to supervise to ensure that they make properly controlled investments.

Task 4

The desire of managers to get more detailed information is one of the main reasons to exists managerial accounting. Because they need more specific information, and because of it the form of managerial report is free formed or without any specific format. The main reason for creating of managerial accounting is the production of valuable information useful for the internal needs of the company. Managerial accounting has an inherent value. The information from managerial accounting is collected by managers and enhanced to strategic plan with practical goals. Stakeholders mostly need financial accounting outside of the organisation since it seeks to reveal the financial performance of the company. The financial measures are short term and immediate. Non-financial measures focus on the long term, and management accounting gives us the platform to evaluate non-financial measures (Walther, L.M., Skousen, C.J., 2009, p.10)

According to the information from E, Williams (2020), the main differences between managerial and financial accounting are:

- Purposes – Managerial account information is used for internal propose by the managers of the organisation for creating a strategic plan. The financial accounting information are consumed by public stakeholders and people outside of the organisation.
- The focus of the report – managerial accounting are focused on providing information to the persons inside the organisation. Financial accounting has a focus to present information to people outside of the organisation.
- By using – managers use managerial accounting only inside the organisation, and there has confidential information. Stakeholders, creditors and public regulators have to use financial accounting.
- The nature of information - the information in managerial reports are with forward-looking nature while the financial data, reports and analysis are with historical nature.
- The base of the information – managerial accounting is decision making based. Financial accounting is with material-based information.
- Regulation - managerial accounting does not follow any specific principals and regulation. The reason for it is that the reports are for internal use. Financial accounting is required to follow general accepted accounting principals (GAAP) and is regulated by the financial accounting standard.
- The scope of the reports – managerial accounting have specific detailed information divided to departments, operations, specific tasks and others. Financial accounting encompasses the entire organisation.
- By the law – managerial accounting is not required by law or norm. The law legally requires financial accounting reports.
- The period – managerial accounting report can be required for any specific period like day, month or week. Financial accounting report is derived after a certain period of time like fiscal year.
- The users of information – only internal users are using the managerial accounting information, while financial accounting is for external users and people outside the organisation.
- The accuracy of reports – managerial accounting working with approximate estimates, details and facts. Financial accounting is required to work with precise information.
- The overall results of the reports – managerial accounting reports reveal areas of weaknesses and problems and showing how they should be fixed. The financial accounting reports showing the company profitability and efficiency.
- The final target - managerial accounting is concerned about how to fix the operations and to enhance profit. The financial accounting report is concerned with the outcome.

Management accounting serves as a guide to the strategy and planning in the organisation. It helps the organisation to set and determine its fundamental goals. They may be thinking of what their mix of products should be, what methods should they use to produce the products, what kind of marketing strategy they should use. How to manage the capacities, how to control the operations, which are the strong side of their product and which are the weak side of their product, are they doing well or are they not doing well, if some factories are not doing well, what should be done with them? Management accountants help in long-term decision making, and their input is significant. Management accounting information can be useful in implementing the goals, actions and plans of the organisation may be used to perform strategic management functions. They can guarantee that

the organisation can maintain a competitive advantage and they can also to monitor critical success factors in different units of the organisation. In terms of planning and decision making, managerial accounting information can help in supporting production decisions and product pricing, budgeting and profit planning (Crosson et al. 2010, p. 36)

Companies are now operating in a global business environment, and the competition in that kind of environment is based on cost. With the need for strategical competes in all areas, companies may need to develop systems that require them to get their products to the relevant markets fast on reduced cost. Managerial accounting helps the organisations to adopt just in time operating philosophy (JIT), which leads to lean manufacturing (Crosson et al. 2010, p. 46).

Contemporary management accounting techniques involve the use of:

- Balanced scorecard – it enables to track the financial of past performance and adding management judging performance on a non-financial performance that includes customer, learning and innovation (Atkinson, A.A., et al. 2007, p.398).
- Value chain analysis - it evaluates how each step in the value chain needs to be managed and analysed. The need for competitive advantage leads to the need for understanding and identification the steps in the value chain that will give them an advantage and will eliminate unnecessary steps in the chain or will outsource them. Managing value chain is an integral part of what management accountants do (Atkinson, A.A., et al. 2007, p.316).
- Activity-based costing - It helps the company to trace costs to individual products and customers and overall helps the company to allocate costs better and its an approach of incurring overheads. Activity-based costing helps the organisation improves and the overall operational and management control in the organisation (Atkinson, A.A., et al. 2007, p.138 - 139).
- Life cycle costing where costs are monitored and controlled throughout a products life cycle from the research and development functions to sales. For example, the cost for research and development can be so expensive that it is crucial to evaluate this cost in conjunction with the cost of sales before deciding whether to embark on those expenditures. Total quality management, business process improvement and benchmarking, are other areas that are linked to contemporary management accounting practices (Atkinson, A.A., et al. 2007, p.316).

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