**ROLES OF THE**

**MANAGEMENT ACCOUNTS**

**DEPARTMENT**

**Summary of the Report on Roles of Management Accounts Department**

The following report aims to present detailed research on the fundamentals of accounting. It has focused on the main ideas and factors surrounding the financial management and also have gone deeper to explain some of the financial terms used in the financial sector therefore making it beginner friendly to a newbie who wants to get into the world of Accounting. In Consideration of the recommended books used in the research such as; the 9th edition of the *Management and Cost* *Accounting* book by the *author Drury, C* in the year 2015, we have greatly used and imported some of his intellectual ideas and advice in solving the major issues faced in accounting. This report will cover the following in summary;

1. What is accounting for management and the distinction between management and accounting?
2. The various types of management accounting software and their implementations.
3. The benefits and drawbacks of the various forms of budgetary management planning techniques used.
4. Why planning instruments are used in budget preparation and forecasting?
5. In order to cope with the financial crisis, distinctions may be made between the companies using management accounting.
6. Why businesses adapt to financial solutions to management accounting systems?
7. Study on how management accounting will be effective in addressing financial problems in the future.
8. The Marginal Cost and Absorption Costing techniques and how they are applied.

**LO 1Demonstrate an understanding of management accounting systems**

**Management accounting**

As management control typically involves extensive measurement, it is often related to and requires contributions from accounting, and MA is part of a firms’ management control system. MA evolved from a failure of traditional management accounting techniques to provide sufficient information to enable managers to externally monitor customers and competitors. MA provides for a more external, long-term, forward-looking, and strategic focus and includes customer accounting, attribute and strategic costing, competitor accounting, benchmarking and integrated performance measurement, and strategic pricing and decision-making. While there remains no agreed definition of MA , which was determined as “the provision and analysis of management accounting data about a business and its competitors, for use in developing and monitoring business strategy” thus suggesting a link between strategy and MA. Ward demarcated MA as “An approach to management accounting that explicitly highlights strategic issues and concerns. It sets management accounting in a broader context in which financial information is used to develop superior strategies as a means of achieving sustainable competitive advantage. Hence, Ward explicitly delineated MA as including links with strategy and performance.

**Different types of management accounting**

In created economies the board bookkeeping data framework gives reasonable system to monetary administrative choices of firms that aren't deficient in quality. Society will be in an ideal situation if explorers can improve dynamics through improved data, since the world has become a worldwide town because of fast overall mechanical and socio-political changes. Note that each industry and areas' prosperity, and sometimes endurance, rely upon the capacity of associations to contend around the world. In late time associations, all things considered, including business, government, instruction, medical services, military, and innovative work, have changed their tasks and the executives draw near. These associations have all felt the strain to work all the more successfully on account of the common conditions, like reductions in subsidizing, heightening expenses, rivalry for restricted assets, and an interest for greater results. Business directors in the 21st century should respond to the serious dangers from nearby sources as well as from provincial, public and worldwide sources. They should look to investigate all chances that are accessible in the quick, public and worldwide conditions since liberation has expanded serious pressing factor for associations to endure, develop and flourish. Administrators should utilize a great deal of the assets available to them as effectively as could really be expected in order to achieve the targets and objectives of the endeavor in a serious climate. Data in type of reports arranged by supervisors and numerous business experts are made conceivable by Management Information System (MIS). For instance, project supervisors may utilize their organization PC and internet browser to get deals examination report to assess deals made by every business faculty. The executives Information System is a formalized strategy to give the board at all levels and taking all things together capacities with fitting data to empower them to settle on ideal and viable choices for arranging, coordinating, assessing, and controlling the exercises for which they are capable. The executives Information System (MIS) affects the piece of the pie partition, income age, deals volume accomplished, enlistment of best qualified applicants, the generosity of the endeavor and the clients' insight about the association and its yield. It supplies chiefs with realities, supports and improves the general dynamic cycle. The powerful conveyance of an undertaking's items and administrations are upheld by the administration data framework. The executives data frameworks ought to be complete, open, adaptable and useable at the suitable levels of the association's exercises.

**Benefits of Managerial accounting**

While the usage rates for some as of now created rehearsals were of an undeniable level and comparable than those introduced in different nations, altogether, customary MAPs were discovered to be insignificantly higher actualized than the as of late created ones. Nonetheless, there is an expanding pattern for firms to put more noteworthy accentuation later on as of late created procedures rather the customary ones, especially on execution assessment methods. The initial three most helpful practices are customary monetary measures including capital planning estimates like IRR and NPV, planning for controlling expenses, and spending difference examination. Since firms took part in this overview are enormous estimated associations capital planning is a significant and fundamental apparatus for development plans. Likewise, similarly significant are the expense control and change investigation since there are huge capital inflows–outpourings. The individual initial three for companies are divisional benefit, planning for controlling expenses, and variable costing. Indeed, even though it is hard to have both huge example sizes and the volume of data fundamental for making right build estimations this could be a critical issue to consider. To begin with, tests including extra associations on the whole size classifications would build the example size and, consequently, take into consideration all the more impressive measurable investigation. Second, industry division will give further experiences into the job that industry plays in the connections illustrated in our examination. Specifically, development of the examination to enterprises which face pretty much threatening and serious conditions may build comprehension of the particular practices. Additionally, organizations in less unfriendly conditions may execute various practices from those in more forceful ones.

**Marginal Cost**

This cost is measured after the changes in the overall costs are separated by the change in amount. A company manufactures 50 units at a price of $100 to break it down. The company then produces 50 more units for $80. To get the marginal cost of $80, divided by the sum shift that is 50 units added, which gives us 80/50 = 1. Six cost marginal.

|  |  |
| --- | --- |
|  **Standard Cost Per Unit** |   **£** |
| Direct Material | 10 |
| Direct Labor | 20 |
| Variable Production Overhead | 5 |
| Other Budgeted Data |  |
| Fixed Production Overhead Costs | £100,000 per month |
| Selling Price | £50 Per Unit |
| Budgeted production and Inventory Data  | January |
| Opening Stock | Nill |
| Production | 18000 units |
| Sales | 16,000units |
| Closing Stock | 2,000units |

Using a) Marginal Costing

The total cost of production per unit and the total cost of sale of January are determined.

 Marginal Costing = Additional Cost ÷ Additional Units

 =18000units-16000units=2000units

 1 unit=£ 50

 18000 Units= 18,000units ×£50=£900000

 £900000 ÷£100000=£9

 Cost per Unit=£9

Total Production Cost= Cost per Unit × No of units Produced

 =£9×18000

 =£16,200

Cost of Sales of January=Cost per Unit ×No of units Sold in January

 =£ 9 × 16000

 =£144,000

Using b) Absorption Costing Techniques

Calculate the cost of production per unit, January overall cost of production and total costs of sales.

Cost per unit =Total Cost ÷ Unit Produced

Total Cost= Total Direct Cost +Total Overhead Cost

Total Direct Cost= Direct Material Cost + Direct Labor

Total Overhead Cost= Variable Overheads + Fixed Overheads

1. To get the Total Overhead Cost we will add the Fixed Overhead Cost which is (£ 100,000) and the Variable Overhead Cost which is (£ 5) per Unit.
2. £5 × 16,000units =£ 80,000 (The total cost of the sold units that Month)
3. 80,000 + 100000 = £180,000(The total Overhead Cost)

2a) Total Direct Cost = Direct material Cost + Direct labor

 10 ×18,000 + 20×18,000 = (180,000+ 360,000) =£540,000

3a) Total Cost = £540,000 + £90,000 =£ 630,000

Cost per unit =£ 630,000 ÷ 18,000= £35

When the actual production units were 19,000 after end of January and the closing stock was 3000, but all the other information was the same, financial reports were produced that correctly applied, interpreting the benefit and profit difference in the budget and in the January. (In Costing absorption, the normal volume used to absorb fixed overhead production costs is 20 000 units per month)

**Cost per unit**

(Fixed cost + Variable cost) / total unit produced

100,000 / 18,000 + (10+ 20 + 5)= 40.5

**Production cost**

Direct labour + raw material + overhead costs on manufacturing

((10+20)\* 18000 + (5)\* 1800 +100,000

540,000 + 90,000+ 100,000= 730,000

**Total cost of sales**

Beginning inventory + Raw material + Direct labour + Overhead manufacturing cost - Ending inventory

0 + (40.5\* 18, 000) - (40.5\* 2000) = 730,000- 81000= 649,000

|  |  |  |
| --- | --- | --- |
| Particulars |  |  |
| Sales RevenueLess: Absorption Cost of SalesOpening StockAdd: Production CostTotal Production CostLess: Closing StockAbsorption Cost of ProductionAdd; Selling, Admin and Distribution CostAbsorption Cost of Sales Un- adjusted ProfitFixed Production Overhead absorbedFixed Production Overhead IncurredUnder/Over AbsorptionAdjusted Profit | £560,000xxxxxx£630,000£70,000Xxxxxxxxxxxxx£100,000 | Xxxxxxxxxxxxxxxxxxx£100,000 |

 **Types of tools in the Management accounting.**

They are different tools and techniques found in management accounting and are such as;

1. Financial Planning- The use of this tool is helping in achieving the objectives and goals of a business. This is a key priority tool needed in any business for it to maximize and capitalize on the profits.
2. Financial Statement Analysis- The documents statements such as Profit and loss and the bank statement is a very good tool in any business whatsoever. Carrying out frequent analysis in this document help us to be aware of the progress of the business after a certain period of time. It also helps in identification of places where by there have been losses and the products and places where by we have seen profits and what percentage of profits.
3. Decision Making problem- Different problems that occur within a business premises or the environment can be solved by coming up with what is called alternatives. These alternatives need to be logic and have a great positive impact on the business once it has been applied. This tool does help business men and women to make firm and well knowing choices and moves in their various businesses.
4. Management Information System- For a business to function effectively, it needs there to be a good communication. The good communication network will greatly influence positively the quick decisions to be made in the Organization. The employees can use this tool to assess their respective information delegated to them and later discharge them and through the use of such a tool, there is an easy and smooth running of the Organization
5. The Budgetary Control- Under the budgetary Control, there is estimation of the future financial needs and arrangement in reference to an orderly basis. This tool is important for accessing of the future and controlling of the performances of the business financially.
6. The Revaluation Accounting- As per the revaluation accounting method, the fixed assets is revalued as per the method so as to find clearly representation of the capital with the values of the assets. It assists in developing findings in the fair return on Capital employed.
7. Cost Accounting- The cost data is presented in the very many ways such as; Product wise, Branch wise, Departmental wise, Process wise and much more. This Comparison between the two costs will really assist the Company in making decisions over which reasons are responsible for the difference between the costs.
8. Standard Cost- This is the cost that has not been determined. It does provide a yard stick in the measuring of actual performances to find reasons for any deviations.
9. Marginal Costing- This is normally used in fixing of the price of selling selecting the mix of the best sales, making the most use of materials that are few, acceptance and rejection of the products in bulk order and foreign order.

**The Advantages and Disadvantages of types of planning tools used in the Budgetary Control.**

 **Budget**

The preparation of a statement in details that is of expected financial results after a period of time is called a budget. In this plan, the details of expected revenues and expenditure are clearly defined. One advantage of the budgets is that it helps in co-ordination of activities across the departments within the Organization as it is detailed with all the business operations so as to ensure the specific Organization meets its planned objectives. The budget contains the whole legal operations of the business, it therefore benefits the Organization by translating all the strategic plans into actions and with this it’s specified the resources, revenues and the activities needed to carry out the strategic plan. The other advantage of the budget is that it lays an excellent record of the Organizational activities. In the budget, all the requests are clarified and justified hence the budget helps in the provision of the resource allocation. Budgets do act as a motivation to managers to help them in achieving of the Organization’s goal and it helps keep every worker, shareholder, Stakeholder in track.

Budget just as any other tool has its own disadvantages. Major problems can occur when the application of the budgets are done mechanically and rigidly. When the budgets are arbitrarily imposed down, the employees will fail to understand some certain factors such as the budgeted expenditure and as a result they won’t commit fully to them as expected. Most employees in the Organization can be discouraged and demotivated because of lack of participation. Budget can go an extend of causing perceptions of unfairness in the organization. It can bring unhealthy competition for resources and politics therefore pushing aside the focus for the objectives, missions and the visions of the Organization. A rigid type of a business budget structure reduces the initiatives and the innovations at lower levels, making it hard and difficult to obtain money that is meant for creations of new ideas and strategies within the Organization.

**The Cost Volume Profit Analysis;**

This is a form of accounting management technique to evaluate the impact of sales volume and product costs on a company's operating profit. The study focuses on how the adjustments to fixed costs, variable costs, unit sales prices and the sales mix of two or more goods impact operating profit. The management uses this method as the planning tool for calculating sales' revenues and income through a mathematical equation, which measures how the existing changes in the amount of sales impact potential profits. The cost volume profit analysis has its own advantages which support the organisation but are no exception to the disadvantages like any other method. The Cost Volume Profit Analysis uses a set of standard formulas, numbers and figures hence ease of calculation and the numbers can quickly be changed to determine the variables. Another advantage of the Cost Volume Profit analyses that acts as a breaking point to most of the organization is that it assists the stakeholders, managers, shareholders in determining the expenditure and how production is bound to affect the objectives of a Business. It also assists the Managers and Stakeholders to decide on the right pricing of the commodities as the highest or the lowest price they can offer to a certain commodity that they are selling in their company in relation to the competition. The Cost Volume Profit Analyses helps in the preparation of a budget. It helps in estimation of the volume of sales in achieving the profits targeted for. Managers can do a preparation of the budgets on the basis of the cost and the revenue which is expected at any side of the level of production. Some disadvantages of this tool is that it makes assumption that all costs are fixed however there are other cost that are mixed and changes with production. In other words, this tool is not accurate enough. It makes assumption of selling to remain constant but the demand for a product keeps on changing. The Cost Volume Profit Analyses will only take into account the period specified and after the taken period elapses, results may be unreliable to use. As much as it says it’s easy for calculation, the separating of the whole cost into the fixed and unfixed cost is not an easy thing to ascertain.

**The Strategy of Pricing**

The value estimated on an Order or service or commodity is what we refer to as Price. This is met by a setting challenging calculations. The strategy in which we use to price commodities puts into consideration the segments, the ability to pay, the conditions of the markets, the actions of our competitors, the margins and the input cost as well as the outcome profit. There are different pricing policies in the market currently and just to name a few, we have; Inclusive of premium, penetration, economy, and skimming pricing. A business normally considers the value delivered and the perception of the customers before it sets its prices. The advantages of Pricing strategy is as follows; the Customer base pricing tends to look at the price willing to be paid by the target customer to get the product before determining the ideal price of the commodity. Such a strategy is really advantageous to the business as it gains quick sales and sometimes it makes huge profits based on the strategy. Through the Cost based pricing, the Organization is given an opportunity to know the gross margin and the cost covered. The Demand Pricing gives room for the optimization of prices by the management. The penetration pricing uses low prices to gain the market share and hence discourage Competitors. Some of the disadvantages of this tool are that there is managing of pricing whereby the service is normally placed a price according to their perception on the cost and not the customer’s pocket ability, this leads to loss of sales to the Organization and can affect its business badly. The Cost based pricing strategy may cultivate into products being priced competitively. The price on the demand may capitalize on the losses in profit failing to create an update on the accounting the cost which is overall and the cost of the customer’s pocket ability. The type of estimating prices may not lead to a profit hence may cost a customer to stop pricing once the Commodity goes up.

**How Planning tools do apply in the preparation and forecasting of budgets**

Budgeting is an expression of the financial state, the cash flow and the priorities of a business. The budget of an organisation is generally reassessed annually, maybe once after a fiscal year and managers take it into consideration, based upon the data. Budget contains a baseline to calculate how outcomes differ from projected output in order to compare the real outcome. Often, budgeting requires targets that are not realistic as market dynamics shift. If a budget is drawn up, the organisation needs the help of many planning instruments to keep you up to date and focus. The company will need a financial plan which will help them to realize and identify the objectives before setting to draft a budget. The Financial plan is a great planning tool that helps in planning and it helps to make sure that they fully maximize their profits in the business. Another great tool they will need is the Financial Statement Analysis. With this tool they will gain access to important and and key business documents such as the bank statement which will show you your general performance in the previous business journey. The Profit and loss statement will help them to see their weak areas and where you need to pay great attention to as well as exploiting them to their strengths. These documents will greatly help them to set the aims and goals and will help you to know how much money to capitalize on the business.

**Comparisons in ways the Organizations might use Management accounting to respond to the financial crisis.**

Management accounts are so important for a company that in so many ways they will help to stabilise. Many organisations' goals are largely related to the principle of management accountancy. Each framework is structured to provide different management information based on management criteria for decision-making (Blocher, 2016). Management accounting systems are several different types, including inventory management, the cost accounting system, price efficiency and employment costing systems.

1. **Cost accounting systems**-The Agency or the Corporation uses this framework to approximate the cost of their goods for inventory assessment, benefit analysis and, ultimately, cost management. This may be appropriate for corporate managers and organisational managers to depend primarily on accounting data and cost because the organization's clarification of all activities may be given by its cost. The cost accounting includes measurement instruments such as budgetary control, marginal costing, requirements, operating costs and inventory management tools, which can help a company effectively and efficiently by unloading its reproducibility.
2. **The Inventory Management**- the method of controlling and doing an oversee on the ordering, use and the storage of components which an organization applies on the production of goods it sells is what we do refer to as Inventory Management. This combines the application of the barcodes scanners, the desktop software, the mobile devices and the barcode printers in streamlining the inventory management such as the consumables goods, stock and supplies (Drury, 2015). This will help the Organizations to accurately understand the current inventory levels and also in minimization of Overstock and the under stock situations. Through the tracking of quantities across the location of stocks, the Managers will have an insight hence increase their capability of making sufficient inventory decisions.
3. **Job Costing System**- The system whereby manufacturing costs are normally allocated to individual item or the batches of the products is what is termed as job costing. This system is normally applied only if the goods meant to be processed is different from one another. This data collected through such a system can be of essence to the Organizations as its one way that the Organization can use to justify the credibility of the firm. It can help in the process of refunding of the costs with a client.
4. **Price Optimization System**- This refers to the application of mathematical analysis to the Organization or corporation in determining how consumers will react to various prices for their goods and services via different channels (Edmonds and Olds, 2013). It is also applied to determine the prices which certain Organization determines shall best be fulfilling to the Organization’s aim such as Maximization of the Operating Profit. This type of system will greatly fit with most Organizations objectives of maximizing the profits while minimizing the losses. Furthermore, it will address some of the challenges they do face of determining which prices to pin on which kind of products. Most of the Organization will buy into such an idea with the aim of making the best out of it.

**How Organizations are adapting to Management accounting systems in bid to respond to the financial problems.**

Many Organizations set different objectives financially. They would love to see prosperity in their various types of business as well as they would love to enjoy the profits earned from their business. Financial challenges have caused many big and developed companies, corporations and Organizations to fall. In order to escape from such these challenges, an Organization tends to employ and adopt other systems. In order to fully adapt to the Management accounting, the Organizations have been learning the concept of financial governance and fully understanding how it can be applied to pre-empt financial issues. The Organization employs this governance in monitoring its strategies.

The Organizations are learning the efficient and the effective managerial accounting skills sets and how they can be applied in order to deal with misappropriation of the resources meant to grow the business.

The organisations also learn how to build effective strategies and potent processes that include efficient reporting and provide complete financial statements on a timely basis and are managed and owned by the Company. In order to make wiser and educated decisions promptly, organisations often plan and anticipate budgets. Alternative budgeting procedures plus management behavioural inferences allow them to assess sufficiently and promptly.

The Organizations have started to use the Managerial system planning tools such as the price strategy to determine the prices of commodities. It is also of benefit to them as they use it to pin down their fellow competitors as well as sell their goods and products first. With the use of pricing policies such as Customer base pricing, the Organization is able to find out about the margin and the costing which is sealed.

**Conclusion**

It is evident for the prosperity of any business; it needs to have stabilized in the correct financial doctrines. An Organization that has fully adopted and customized the right managerial accounting system is bound to make and maximize its profits while minimizing the loans it would incur. To prosper as a business or a company, corporation or Organization needs a good plan and powerful strategies. Introduction of planning and forecasting a budget in the Organization will save the Organization a lot of financial challenges and moreover will help the organization to keep on the track and to remain focused. Budgeting will help the Managers to make prompt decisions concerning the Business as also they will be able to surpass their competitors. Other planning tools also influence the business positively with some helping to come up with set goals, objectives and aims of a business. Managerial type of accounting is easily to understand and very essential for an Organization or a business person. The management accounting study assists students to understand more about accountancy and more about the fundamentals to accounting. From this Report we are able to learn a number of reasons why most Organizations fail to reach their objectives and the aims they set when they were starting out.

**Recommendations**

* It is therefore recommended that; Organizations that would like to have prosperity in their business should adopt the Management accountancy system so as to gain profits.
* The Business Organization is advised to adopt managerial set of skills and openness in the business so as to be able to make wiser decisions
* The Organization should plan and forecast a budget plan that wills easier challenges faced when making prompt decision. They should use a budget plan to timely check their projects and self-assess the company.
* The Organizations should try to use techniques and the planning tools such as Financial planning to assist them in achieving the goals, they should use the different pricing policies to cost base pricing policies and other different policies in order to make quick sales and win reliable customers.

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