**Module Title: Management Accounting for**

**Decision Making Module Code: BAF\_6\_MAD**

**Assignment No/Title: 1 and 2**

Table of Contents

[1.0 Introduction 3](#_Toc133491644)

[2.0 Task 1 3](#_Toc133491645)

[3.0 Task 2 6](#_Toc133491646)

[3.1 Various cost elements of production, including various names associated with the cost 6](#_Toc133491647)

[3.2 Problems associated with identification and classification of cost 7](#_Toc133491648)

[4.0 Task 8](#_Toc133491649)

[4.1 Traditional accounting techniques and uses 8](#_Toc133491650)

[4.2 Contemporary management accounting techniques 9](#_Toc133491651)

[4.3 How the methods have helped in the analysis of costs for the corporate entity 11](#_Toc133491652)

[5.0 Conclusion 12](#_Toc133491653)

[Reference list 13](#_Toc133491654)

# 1.0 Introduction

A brief description of the accounting sector and its significance in all organisations is given in this paper. It discusses the many sorts of accountants, including cost and leadership accountancy, chartered accounting firms, and forensic accountants, as well as the three main subfields of accounting, namely accounting for finances, managerial accounting, and auditing. The research also analyses the advantages and constraints of current technological developments in the accounting sector, such as machine learning, automation, and accounting software. The numerous production cost components, such as direct materials, direct labour, and manufacturing overheads, are covered in this report. The study also explains the various labels given to costs and how important they are to the production process. Overall, the research emphasises the value of accountants in organisations and the necessity for specialised expertise and knowledge that cannot be replaced by machines.

# 2.0 Task 1

Since accounting is in charge of the accounting operations of the company, it is essential to any organisation. Financial accounting, management accounting, and auditing are the three major categories into which the primary duties and responsibilities of accounting in an organisation can be divided. In an organisation, the accounting function is crucial. Accounting specialists are in charge of preserving, organising, and reviewing financial and tax records. Documenting financial transactions, keeping an eye on the effectiveness of accounting systems, resolving problems in financial documentation, creating budgets, offering financial advice, and completing annual tax returns are just a few of the duties and duties of accountants in the workplace (Dugdale, 2005).

Cost and management accountancy (CMA), chartered accounting professionals (CA), forensic accountants, accounting firms, auditing professionals, and government accountants are just a few of the several categories of accountants. Different education, training, and certifications are needed for the many sorts of accountants (Bhimani and Bromwich, 2009).

Organising, keeping, and checking financial and tax records, creating budgets, offering financial advice, and completing annual tax returns are every one of the responsibilities of accountancy in an organisation. Accountants of diverse specialties require a range of education, training, and certifications. To select an accounting certificate that best fits one's interests and career aspirations, it is crucial to understand the roles and responsibilities of the various types of accountants (Gray and Bebbington, 2001).

**Financial accounting** involves documenting and disclosing financial activities to outside parties, including creditors, regulators, and investors. The preparation of financial statements including the balance sheet, revenue statement, and liquidity statement, which shed light on the organisation's financial performance, is one of financial accounting's primary duties.

On the other side, **managerial accounting** addresses executive decision making of the company. For the objectives of decision-making, planning, and control, it gives the management information. Accounting for costs, budgeting, as well as achievement evaluation are all parts of managerial accounting, which aids management in deciding how to allocate resources strategically and in accomplishing organisational goals.

Another crucial accounting task that guarantees the correctness and dependability of financial data is **auditing**. An external auditor checks and analyses the organisation's statements and financial information in order to find any discrepancies or inaccuracies. This entails an outside examination of financial statements.

Recent technical breakthroughs in the accounting industry have included automation, machine learning, and accounting software. Although many accounting operations have been automated as a result of these developments, accountants are still necessary in the modern era of quick changes in consumer preferences and technological improvements.

**Interpretation and Analysis of Financial Data:**  Accounting professionals have the ability to evaluate and analyse accounting records in a way that machines simply cannot, giving managers useful information for making decisions. Big data and analytics are now readily available, enabling accountants to provide customers specialised and valued services that increase their relevance and value.

**Personalised Services:** Rather than receiving automated reports, clients prefer to work with people who can provide insights, advice, and assistance. Accountants are an essential component of any organisation because they foster trusting connections with clients and provide individualised services that are unmatched by computers.

**Acceptance of New Technologies:** As a result of the accounting profession's adoption of new tools and methods of operation, accountants are becoming more effective and efficient. In today's quickly evolving corporate climate, accountants are embracing new technology to enhance their services, which includes digitization and artificial intelligence (AI), making them more useful and valuable. AI has the potential to alter the way accountants gather, examine, and interpret financial data, upending the accounting sector. Accounting professionals may now analyse data far more quickly and efficiently with the aid of AI. Entry of information and document inspection can be automated by AI-based programmes, freeing up accountants to work on more strategic accounting activities like financial planning and adherence to regulations. An important advantage of AI in accountancy is improved accuracy and decreased human error. AI can assist reduce errors, which naturally results in less effort spent locating and fixing faults. Businesses may be less vulnerable as a result of accounting problems, such as lost payments or penalties for taxes

AI can also lower the risk of corruption by analysing all financial documents and finding inconsistencies that human accountants would have overlooked. AI can immediately notify accountants of these anomalies, allowing them to take action and stop worse problems from developing. It is crucial to remember that artificial intelligence is not intended to substitute for human accountants. Instead, AI is intended to improve the accountant's capacity to give correct financial data and make superior commercial judgments. In the end, AI can assist accountants in developing a more comprehensive accounting approach based on effective recordkeeping and financial accessibility. As a result, accountants who use AI as an instrument will be well-suited to succeed in the future's technologically advanced environment (Horngren et al. 2009).

**Complexities in Accounting:** Accounting is an intricate and dynamic sector that calls for specialised knowledge and abilities that are indispensable to machines. Accountants add expertise and expertise to the table, offering specialised solutions to difficult financial issues that computers are unable to manage.

Any organisation needs accounting services, and in this era of accelerating consumer trends and technological breakthroughs, accountants are still necessary. Although many accounting jobs have been automated by technological improvements, accountants are still essential to the financial success and health of any organisation because they contribute experience, personalised services, and the ability to read and analyse financial information that machines just cannot match.

# 3.0 Task 2

## 3.1 Various cost elements of production, including various names associated with the cost

Direct materials, direct labour, and manufacturing overheads are the three groups that make up the cost components of production. Raw materials utilised in the production process are referred to as direct materials. Wages, salaries, and benefits given to workers who are positioned directly on the assembly line are referred to as direct labour. All additional indirect expenses related to the manufacturing process, such as rent, utilities, insurance, and depreciation, are included in manufacturing overheads (Garrison et al., 2014). The International Accounting Standards Board (IASB) states that expenses for maintenance and repairs, quality assurance, research and development, and management pay may also be included in manufacturing overheads. Because they cannot be immediately linked to the creation of a particular good or service, these expenses are occasionally referred to as indirect costs. In addition to the three main cost components, production may also incur a number of extra expenses. These consist of:

* Costs related to marketing, selling, and distributing the final goods are referred to as selling and distribution costs.
* Costs related to general management, accounting, finance, and other administrative tasks are referred to as administrative costs.
* Costs of research and development are those incurred when creating new items or enhancing ones that already exist.
* Depreciation and amortisation are expenses related to the deterioration of long-lasting assets utilised in production.
* Costs of borrowing money to finance the manufacturing process include interest charges.
* Taxes—these are the levees made against the proceeds from the sale of the goods.

Depending on the accounting system being utilised, these cost elements may have different names (Drury, 2015). For instance, in a job-order costing system, selling and distribution costs, operational costs, R&D costs, and interest costs are referred to as period costs, whereas direct materials, direct labour, and manufacturing overheads are referred to as product costs.

## 3.2 Problems associated with identification and classification of cost

Businesses may find it difficult to effectively identify and classify costs because there are many different types of expenses involved in daily operations that must be reported.

**Firstly,** the lack of uniformity in how expenses are defined and classified is one of the main problems with cost identification and classification. For instance, there could be variations in how overhead expenses are assigned to various departments or projects or how indirect costs are allocated to various goods or services. These discrepancies may affect the accuracy of financial accounts and make it challenging to compare expenses across various businesses or industries. As an example, for the manufacturing companies like Rio Tinto, the cost to bring machinery at the extraction site has been directly associated with production where it can be described as direct cost. On the other hand, the companies like Amazon have not been associated with production and the carriage to bring materials from sellers can be categorised as overhead expenses.

**Secondly,** the complex nature of cost structures in modern businesses has been another problem associated with the process of cost identification. It can be difficult to precisely manage and distribute costs when a company has several product lines or services with distinct cost structures. Additionally, firms could incur expenses that have little to do with creating or providing a good or service, including marketing and advertising costs, which are challenging to classify in any particular category.

**Thirdly,** Identification and classification of costs according to international accounting standards can provide difficulties. For instance, the accounting laws and regulations of various nations may differ, which may have an effect on how costs are reported and classified. Additionally, some costs, like taxes or customs duties, which can differ greatly from one jurisdiction to the next, might be more challenging to categorise in context of the different countries (IASB, 2015).

# 4.0 Task

## 4.1 Traditional accounting techniques and uses

**Marginal costing method**

The division of fixed and variable costs is a component of the costing technique known as marginal costing. In this approach, only the variable costs are taken into account when determining how much a good or service will cost. When determining the cost of production, the fixed costs are viewed as period costs and are not taken into account (Banerjee, 2021). Marginal costing only includes expenses that change with production, therefore it gives a more realistic view of the profitability of goods or services. The uses of the same can be done in different scenario as follows:

**Decision-making:** By giving pertinent cost information, marginal costing aids in decision-making. It aids in choosing the selling price, the product mix, and whether to manufacture or purchase a product. As an example, if a manufacturing company produces A and B and Product A incur variable cost per unit is $20, while product B incur is $30. The company's fixed expenses total $100,000. The business can identify the best product mix to maximise profitability by using marginal costing to calculate the contribution margin for each product [(Revenue - Variable Costs) / Revenue].

**Break-even analysis:** Marginal costing aids in identifying the break-even point, which is the point at which total revenue and total costs are equal. It is an essential tool for determining how profitable a good or service is and how it can sustain in the business.

**Cost control:** Marginal costing helps with cost control by exposing the variable costs that are subject to management influence. It assists in locating areas where expenses can be cut and in evaluating the effects of those cuts on profitability.

**Absorption costing method**

Absorption costing allocates all manufacturing expenses, including both variable and fixed expenses, to the goods produced. The term "absorption costing" refers to a method that presumes that all expenses are absorbed by the products. Absorption costing is used to calculate the total cost of manufacturing a good, including direct labour costs, direct material costs, variable overhead costs, and fixed overhead costs. The uses of the same can be in the following situations:

**Pricing decisions:** Managers can accurately comprehend a product's true cost thanks to absorption costing. Managers can set prices that cover all costs and still make a profit by factoring in both variable and fixed costs.

**Inventory valuation:** On the balance sheet, inventory value is determined using absorption costing. The inventory valuation reflects the entire cost of manufacturing because all expenses are factored into the product cost.

**Performance measurement:** Evaluation of the effectiveness of various managers, departments, and products is done using absorption costing. Managers can find areas where costs might be cut by comparing the actual cost of creating a product to the anticipated cost (Gupta et al., 2010).

## 4.2 Contemporary management accounting techniques

To assist management in making wise decisions, accounting for management is the process of gathering, evaluating, interpreting, and disseminating financial data. It entails utilising a range of accounting methods and technologies to give management the data they require to operate the company efficiently.

Management accounting has developed over time to keep up with shifts in the business context. New strategies and procedures have been established in recent years that have aided businesses in better comprehending and controlling their expenditures. The following are a few of the most significant modern management accounting techniques:

**Activity-Based Costing (ABC):** The activity-based costing (ABC) technique is used to pinpoint the organisational activities that utilise resources and allocate costs to those actions based on consumption. ABC presents a more realistic view of the actual costs associated with manufacturing goods and services by assigning expenses to certain activities.

**Lean Accounting:** This approach is based on the ideas of lean manufacturing. It aims to reduce waste and boost accounting efficiency. It places a lot of emphasis on the use of visual leadership tools in order to assist management in promptly identifying and solving issues consistently.

**Target Costing:** Based on the price that buyers are willing to pay, this technique is used to calculate the maximum cost of the product. Management can determine the cost of production by working backwards from the target value and, if necessary, take measures to minimize it.

**Value Stream Costing:** Value stream costing is an approach that aims to determine the costs associated with each activity involved in the production process. It is based on the idea of ​​mapping value streams. Management can focus on reducing waste and increasing efficiency by separating value-producing activities from non-value-producing activities.

**Balanced Scorecard:** The balanced scorecard is a tool for coordinating organisational goals with financial and performance goals. It offers a comprehensive assessment of the company's achievements and aids management in locating problem areas (Dugdale, 2005).

Each of these methods has aided businesses in improving performance and cost management. For instance, ABC has assisted businesses in determining the actual costs associated with providing goods and services, allowing them to set more accurate prices. Companies have saved money by using lean accounting to simplify their accounting procedures and get rid of waste. Companies have used target costing to lower production costs while still satisfying client objectives. Value stream pricing has assisted businesses in identifying manufacturing process flaws, leading to higher levels of productivity. Last but not least, the balance scorecard has assisted businesses in better performance by assisting them in better matching their goals with performance measurements.

## 4.3 How the methods have helped in the analysis of costs for the corporate entity

The use of contemporary management accounting approaches can improve an organisation's profitability, effectiveness, and cost management. These methods consist of:

**Activity-Based Costing (ABC):** Transferring costs to certain activities in accordance with resource consumption gives manufacturers a more realistic picture of their manufacturing expenses. This aids management in identifying high-cost regions and setting priorities for cost-cutting strategies.

**Lean Accounting:** Using visual tools like Kanban boards, this methodology minimises waste and increases accounting efficiency. It facilitates management's ability to recognise and address problems promptly, which improves decision-making and streamlines the accounting process.

**Target Costing:** This method determines the highest cost that can be incurred on a product based on the price that customers are willing to pay. Management can reduce production costs and boost profitability by moving backward from the goal value.

**Value Stream Costing:** This method assists management in reducing waste and increasing efficiency by differentiating between value-added and non-value-added operations. It does this by calculating the costs related to each activity in the production process.

**Balanced Scorecard:** Using a balanced scorecard, an organisation may coordinate its operational objectives with its financial and performance targets while also highlighting its weak points. Achieving improved profitability and efficiency for organisations is made possible by monitoring achievement across several domains (Alleyne and Weekes-Marshall, 2011).

# 5.0 Conclusion

In conclusion, accounting for finances, management accounting, and auditing are the three main categories of accountancy responsibilities. Accounting is a critical role in any organisation. Accountants fall into a variety of categories, each requiring a different level of education, experience, and certification. The use of automation, machine learning, and software for accounting are just a few of the recent technical developments in accounting that have revolutionised the field and improved accuracy and efficiency. However, accountants continue to be crucial in the analysis and interpretation of financial data, the provision of individualised services, and the provision of knowledge and specialised solutions to challenging financial problems that computers are unable to manage. Direct materials, labour costs, and manufacturing overheads are the three main cost components of production. Each cost component has a different name. Any organisation that wants to effectively manage expenses and increase profits must have a solid understanding of these cost components.

# Reference list

Alleyne, P. and Weekes-Marshall, D., 2011. An exploratory study of management accounting practices in manufacturing companies in Barbados. *International Journal of Business and Social Science*, *2*(9), pp.49-58.

Banerjee, B., 2021. Cost accounting: Theory and practice. PHI Learning Pvt. Ltd.

Bhimani, A. and Bromwich, M., 2009. *Management Accounting: retrospect and prospect*. Elsevier.

Drury, C., 2015. Management and cost accounting, ninth edition. Andover: Cengage Learning.

Dugdale, D., 2005. *Contemporary management accounting practices in UK manufacturing*. Elsevier.

Garrison, R. H., Noreen, E. W., & Brewer, P. C. (2014). Managerial accounting. McGraw-Hill.

Gray, R. and Bebbington, J., 2001. *Accounting for the Environment*. Sage.

Gupta, M., Pevzner, M. and Seethamraju, C., 2010. The implications of absorption cost accounting and production decisions for future firm performance and valuation. Contemporary Accounting Research, 27(3), pp.889-922. Doi: 10.1111/j.1911-3846.2010.01030.x

Horngren, C.T., Datar, S.M., Foster, G., Rajan, M.V. and Ittner, C., 2009. *Cost accounting: a managerial emphasis*. Pearson Education India.

International Accounting Standards Board. (2015). International Financial Reporting Standards (IFRSs). Available at: <https://www.ifrs.org/> (Accessed 16 April 2023).