MANAGEMENT ACCOUNTING

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Task 1

LO1 Demonstration on the understanding of management accounting systems

P1 Explanation relating to management accounting and essential requirements on different types of management accounting systems

Management accounting definition: Management Accounting is the preparation of management reports and accounting which also provides accurate and time financial statistical information. This helps the managers of the company to make decisions on a day to day basis. However, unlike financial accounting which makes the external stakeholders to generate yearly financial statement the managerial accounting generates monthly reports to inform the employees about the performance during the year (Otley, 2016). For example, CEO of ABC ltd. hires a management accountant to break up the performances done within the year and helps in maintaining the financial statement.

Different types of management accounting systems: Management Accounting do provide with proper managerial aspect to meet the needs and wants of the company in different possible manner. Taking this into consideration the different types of management accounting system that are mostly used within a company are as follows:

- **Cost-accounting system:** The Cost-accounting system is the framework used by different firms to properly estimate the cost and the product used them for profitability analysis. The process also helps in estimating the cost of products which is critical in operations. The benefits of cost accounting are used to record the production level for the year and also with the use of inventory systems. It is also designed to track down the flow of inventory under various stage of production.
- **Inventory management system:** Inventory management system is the process that is to be the combination of different latest technologies and the procedures that checks the monitoring and maintenance of stocked products (Renz, 2016). The system benefit says that it is used for identifying the inventory items that are being used by the company for different information like barcode and asset tags. The tools that are being used to read the barcode labels and handled properly.
- **Job-costing systems:** Job costing process is used for assigning and also accumulating the manufacturing costs for output of individual unit. It is mainly used when different items

produced are different from each other and each of that system do have a significant cost. The main benefits of job-costing systems are to ascertain the cost of profit or loss for each jobs. Another objective relating to this would be to find the jobs that may be more profitable to the company.

- **Price-optimising systems:** Price optimisation process is the use of mathematical approaches in order to determine on the erection of customers respond to the different prices for the products and services under different contributing channels. It is alternatively used to analyse the prices at which the company determines to meet its best solution. Benefits of price optimising system is that it provides proper information relating on how much customers can the company may retain based on the overall year's performance.

P2 Explanation of the different methods used for management accounting reporting (D1 and M1)

Management accounting is mainly used for planning, decision-making and regulating the measuring performance within the company. This also makes it easy for the company to analyse the financial position at the end of the year as with the use of management report every managerial aspect within the company can be focused properly (Maas *et al*. 2016). Taking this into consideration the different methods used for management accounting reporting will be discussed in the following points:

Budget reports: Budgeting managerial accounting reports are very critical and measure the performance to generate as a whole for different small business and department wise for large firms. However, in taking the company do try to create an overall budget to properly understand about the different schemes for the conduction of its performance. Budget will also make it easy to allow caters for unforeseen situations that arise under different circumstances. It also lists various sources of earnings and expenses and tries to achieve the goals that may be within the budgeted amount.

Accounts receivable aging reports: Companies do relies on heavy and extending credit and then the account receivable aging report are considered to be vital as well. On the other hand breaking down of the balances under specific times allows the managers to identify the default and also finding the issues in the collection process. Under this various defaulters under which the company must need to complete proper transformation to tighten up the different credit policies of cash flow.

Cost managerial Accounting reports: The managerial accounting does help in computing the cost of articles. The material costs, labour and overhead may be added into deliberate costs. This total of the costs are divided under different amounts of the production of products. The cost report also offers a proper information that are provided to the managers to properly release the cost price. Profit margin also estimated and monitored through the use of reports and also provides a proper picture of the costs that the company incurred.

Performance reports: Performance report is mainly created to review the performances done during the financial period. The departmental performance does take the reports to generate within large firms. Managers do use these performance reports to make strategic decisions and the performance of future. This individual is awarded to provide commitment within the organisation and performers to laid off according to the requirement. Performance report do offer a deep insight relating to the working aspects.

As per the above illustrated types of management accounting systems the particular question will provide benefits relating to the accounting system that is used by Vodafone plc will be illustrated in the following points:

- **Cost-accounting system:** Benefits relating to cost accounting system includes :

Measurement and Improvements of efficiency: Proper advantage can be gained that the cost accounting helps in enabling measuring its efficient and maintaining of performance to improve the use of cost accounting system. In relating to the study Vodafone plc do increase the use of performance and with this increase in the price of material may be greater wastage of material and with the inefficiency of time and buying the unnecessary high prices were also paid.

Fixation of prices: Under different cases a firm do try to fix up the prices and under which products are considered under cost of production (Cooper *et al.* 2017). This price cannot be fixed up properly as if no figures of cost are available. The prices are fixed without proper costing information and is also possible that the price are quoted and also may be high under which the orders cannot be obtained.

It guides in reducing prices: Under certain periods it may be said as necessary to reduce the price under below total cost. This is also when the depression of costs are guided in a management and direction.

Application of cost accounting system is used in ascertaining of cost under each use of products, process and activity. It also helped in controlling of cost and material cost to use the costs under different techniques. It also helps in making proper financial decisions to control the material costs and labour costs to control the standard costs and the budgetary controlling system. The cost accounting does help in applying the fixing of selling prices through providing proper costing information.

- **Inventory management system:** Inventory management also provides a successful understanding of the crucial part and provides information a proper inventory balance that helps in figuring about the need of inventory. This also makes it easier for the company to prevent relating to the shortage and also keep the inventory on hand and also have too much proper performance. Turnover makes it easy to ensure the products that become obsolete and maintaining of working capital. Application of inventory management system do help in reducing carrying cost (Quattrone, 2016). The system also used in tracking up of the transported from vendor to the warehouse.
- **Job-costing systems:** Benefits of job-order costing system provides the managers to calculate profit earned in an individual basis and also helps the company to get into the act and get desirable performance in the future. In relating to Vodafone plc, the company also uses the job costing method to calculate its profit made during the year. Application of job-costing within the performance of the company do come under to record the report of each item in a direct material and direct labour that were used in manufacturing overhead.
- **Price-optimising systems:** The benefit of price-optimising system that are being used by Vodafone plc in different possible manner under which it use it to save time, scalability, and control the financial aspect of the company. Intelligent prices optimising to reduces the internal manual resources to devote the price setting. The competitor data used by the company are under dynamic adjustments and supplied under fewer personnel and financial resources are considered. Market transparency to provides information and also puts the operations to be done online and rapidity. Application of price optimisation system helps in determining the price at which Vodafone plc would determine the bet price of the customers and also maximising operating profit.

Integrated management accounting system does provide standardised procedures to lead Vodafone plc for recording of the transactions and also determining the financial information for the financial year. It also interconnects the reporting also provides different functional areas to be connected as per the point of sale, back office and front office works. The information under the aspect also provides information relating to the input and output of the management accounting functions. The adoption of the integrated financial system helps in enhancing the speed and accuracy of the financial information.

Relating to the management accounting reporting integration it can be said that the financial professional within the statement on management accounting reporting under the both guiding principles under the integrated reporting.

Task 2

LO2 Application on the range of management accounting techniques

P3 Calculation of cost using appropriate techniques of cost analysis and preparation of income statement using marginal and absorption costs (M3 and D2)

Calculation of marginal costing		
Particulars	Amount	Amount
Sales		€ 1,470,000 .00
less: Cost of sales		
opening inventory	€ 20,000,000.00	
variable cost of production	€ 600,000.	

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fixed overhead absorbed	€ 300,000.00	
less closing inventory	€ 900,000.00	
(under)/over-absorption	€ 21,800,000.00	
Gross profit		€ (20,330,000.00)
Less: Non-production costs		€ 400,000.00
Profit/Loss		€ (19,930,000.00)

Table 1: Profit and loss statement under Marginal Costing

(Source: Self-Developed)

Calculation of absorption costing		
Particulars	Amount	Amount
Net sales		€ 20,000,000.00

Less: Cost of sales		
Opening Inventories	€ 14,000,000.00	
Variable production cost	€ 300,000.00	
Fixed Overhead Absorbed	€ 600,000.00	
Less: Closing inventories		
Cost of sales		€ 14,900,000.00
(under)/over absorption		
Gross Profit		€ 5,100,000.00
Less: Administrative expenses		€ 900,000.00
Profit and Loss		€ 4,200,000.00

Table 2: Profit and loss statement under Absorption Costing

(Source: Self-Developed)

Management accounting technique provides proper plan to ensure formulas that may be translated into action. Taking this into consideration the different management accounting techniques will be providing in the following points:

a. **Financial planning:** Analysis within the financial statement is conducted under ratio analysis and the comparative statement, trend and graph are being considered with the company. Analysis of fund and cash flow relating to the company provides proper information under which the flow of cash makes it easy to perform and determine its flow of cash.
b. **Costing accounting:** in order to use the cost accounting information the use of marginal costing and direct costing information provides the company to get the performance into consideration. Analysis of the cost variances and standard costing do help the company to know about the costing aspects that provides the company to perform (Lancellotti *et al.* 2017).
c. **Fund flow analysis:** The fund flow analysis does provide proper information within the movement of fund during the financial period. This analysis also helps in getting to know on whether the fund is properly used or not.

Task 3

P4 Explanation on the advantages and disadvantages on the different types of planning tools used in budgetary control across the different regions (M3 and D3)

The different planning tools used in budgetary tools are as follows:

Planning tools	**Advantages**	**Disadvantages**
Financial budgets	1. This budgetary tool helps in estimating the future cash balance of a company, 2. By using this budgetary tool, the managers can evaluate the net present value	1. This budget is complex in nature and therefore small organisations cannot use this model. 2. Preparation of financial budget requires financial data

	of an investment. 3. Future availability of cash can be ascertained by using the financial budget.	for a long range of time, which is often found as difficult to gather.
Operating budget	1. Revenue budget, which is an integral part of operating budget helps in deriving the amount of revenue, that is required to be earned in order to achieve the short term goal of an organisation, 2. Operating budget facilitates the managers to estimate the expense of a company for a particular period of time, 3. Estimated profit for an accounting year van also be calculated by using the operating budget.	1. Like financial budget, the operating budget also needs large quantity of data, which is difficult for small companies to maintain. 2. This budgetary tool is not flexible in nature and therefore, it creates problem, when the production scale changes.
Non-monetary budgets	1. This budget helps in determining the quantity of units to be produced or sold, 2. Non-monetary Budget also emphasises on the quantity of outputs, and therefore the value of the estimated expense and revenue can be calculated by considering this figure.	1. This budget is difficult to prepare, as it requires complex calculations.

The different uses of the budgetary tools will be illustrated in the following points:

a. **Use of financial budgeting:** financial budgeting is mainly used to forecast the immediate actions taken to complete the works on time and also know about the exact position of the Vodafone plc during the financial period (Ivanova *et al.* 2017). Purpose of financial budget provides proper use of planning and controlling the inflows and outflows of cash and the financial position of the Vodafone plc.
b. **Use of operating budgeting:** operating budget is also important part of a business and also provides all the costs associated within the operations of the company. Knowing up of the cost per unit are produced properly and also helps in ensuring the charges of Vodafone plc in different ways possible.
c. **Use of Non-monetary budgeting:** The non-budgetary aspect does include benefits line time-off, free or discount in the financial performance. Eligibility of the issues may affect the disbursement of the benefits, which also determines the state of weekly benefits and allows the potential requalification of the benefit.

Use of Vodafone plc do try to take control of the budgetary controlling system as this makes the company to take control of the performance and know about the cost used per unit and associated with the operations that are being sued ion completing the performance and be known in the different market. The company do take the inflow and out of the cash as this will properly help the company to get into the exact position and maintain the financial performance of the charges to be controlled.

Task 4

LO4 Comparison on the ways organisations could use management accounting to respond to financial problems

P5 Comparison on how Vodafone Plc can adapt management accounting system to respond to financial problems (M4)

One of the biggest complaints relating to the management accounting makes the company to perform under the different techniques that might generally be accepted and this may provide accurate information. However, due to the method may not align the manufacturing costs and performance. The use of GAAP is known internationally and therefore if the Vodafone plc does not use this principle then it may make it hard to make the other companies under and about the activity based costing (Parding and Liljegren, 2017). However, before implementation of management accounting system the company must need to know about the techniques that must need to be ensured and take into consideration are expected to be out weight as per the cost of multiple systems. Adapting relating to the guidelines exist as per the management accounting aspect and the techniques used makes it easy to be adapted and also specifies the performance of the advantage under management accounting. However, there are some drawbacks that make it hard for Vodafone plc to be flexible and are difficult to compare as per the companies and be inconsistent in applying the accounting aspect as per the report. Being reliable is a process under which emphasis relating to the information under the timelines may allow the company to make decisions. This also implies a proper trade-off and along with reliability to get more accurate information and also wait until as per the result and near-absolute certainty. Before being relying on the management, accounting information the company must need to evaluate the importance of accuracy financial aspect and be more important relating to the quality of the information.

In order to respond the financial problems, the management accountants consider the key performance indicators or benchmark indices to make comparative analysis. In this regard, it is also to be added that a company may face difficulty in getting profitability as per the requirement. In this kind of situation, a company may consider its management accounting reports such as the variance analysis report, and budgetary reports in order to analyse the reason behind the disparity in the actual figure and the budgeted figure. KPIs such as the net profit ratio and the gross profit ratio are used to examine such loopholes. Vodafone Plc can use such strategies in order to respond against the financial problem. In order to such thing, the company is required to prepare budgetary reports and KPIs.

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