Q&A

(b) In financial accounting, the principal financial statements are the bookkeeping statement, the balance sheet and the cash flow statement.
(c) Some major outside users of information are shareholders and analyst advisers, lenders, management, suppliers and other trade creditors, customers, government and tax authorities, public and employees.
(d) Accounting is influenced by historical factors, country factors, organisational factors and technological factors.
(e) Auditors prepare the accounts and then on the basis of the accounts issue an auditors' report.

A3 True or false?
(a) *True*.
(b) *False*. There is no such thing as a bookkeeping statement. This should be the profit and loss account.
(c) *False*. These are all users not just outside users. We need to exclude the two inside users (management and employees).
(d) *True*.
(e) *False*. Management prepare the accounts and then auditors check them and prepare an auditors' report.

Chapter 2: Introduction to Management Accounting

Discussion Questions

Q1 Both financial and management accounting provide information for decision-making. However, the crucial distinction is that in financial accounting decisions are made externally to the firm, whereas in management accounting they are made internally.

Discuss this statement.

A1 Broadly this statement is true, although more so for financial accounting than for management accounting. In financial accounting the aim is to provide mainly external users with financial information. The users, for example shareholders, can then make decisions such as whether to buy, sell or hold on to their shares.

For management accounting the aim is certainly to provide information for internal users, primarily management. If a wide definition of decision making is taken, then the statement is true for management accounting. However, more conventionally, management accounting is seen as providing information for costing, for planning, control and performance, as well as for decision-making. In other words, decision-making (e.g., whether to make product A or product B, or invest in a particular project) is distinguished from costing, and planning, control and performance. Costing is seen as recovering the costs of making a product or service into its selling price or its stock valuation. Planning, control and performance is budgeting and standard costing. Although costing, and planning, control and performance may lead to managerial decision-making, this a secondary rather than a primary function of the activity.

Q2 The modern industrial environment has changed from national smoke-stack industries to service-based, global, knowledge and technology-driven industries. How has this affected management accounting?

A2 It is certainly true that, over the last century, traditional manufacturing industry has declined, both in the UK and worldwide. Steelmaking and product manufacturing in large factories have become of much less importance in the global economy. They have been replaced by more service industries and more knowledge-based industries (such as the computing industry). As a result, costing has become a less important part of management accounting. New areas of management accounting have arisen such as activity-based costing, strategic management accounting, just-in-time stock valuation and service costing. These new management accounting techniques have attempted to grapple with the requirements of the new industries. Opinions are often divided on the success of these new techniques. Some writers, such as Kaplan, feel that management accounting has in the main failed to adapt. Others are more sanguine.

Chapter 3: Costing

Discussion Questions

Q1 What problems can inadequate costing systems cause for companies?

A1 Costing involves ascertaining all the costs for a product or service so as to form the basis for pricing and for stock valuation. The danger, therefore, is that an inadequate system will provide potentially misleading total costs for particular products or services, and inaccurate stock valuation figures.

Q&A

Taking pricing first, overheads may be allocated on an incorrect basis. For example, a company may recover its overheads on the basis of direct labour hours when it would be more appropriate to use activity-based costing. Individual products may then be costed at too little or too much. This will in turn lead to under- or overpricing. Underpriced goods may not be recovering all their costs, while overpriced goods may lose out to correctly priced goods made by competitors.

If the stock valuation is wrong, this may lead to an inaccurate profit figure. Every pound of extra stock creates a pound of extra profit and vice versa. If stock is misvalued, this will mean that the financial profit reported to shareholders is wrong. Usually, the same stock valuation is used for both financial and management accounting.

Q2 Classify the following as either direct materials, direct labour, production overheads, administrative expenses or selling and distribution costs:

(a) Factory supervisors' wages
(b) Advertising campaign costs
(c) Machinery maintenance costs
(d) Personnel officer's salary
(e) Depreciation on sales van
(f) Machine shop workers' wages
(g) Raw materials
(h) Cost of computer for wages
(i) Bank interest
(j) Depreciation on factory computer

A2

Direct Materials	*Direct Labour*	*Production Overheads*	*Administrative Expenses*	*Selling and Distribution Costs*
(g) Raw materials	(f) Machine shop workers' wages	(a) Factory supervisors' wages (c) Machinery maintenance costs (j) Depreciation on factory computer	(d) Personnel officer's salary (h) Cost of computer for wages (i) Bank interest	(b) Advertising campaign costs (e) Depreciation on sales van