

Management Accounting

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ASSIGNMENT PART 1

Introduction

A study case is being considered of the company named as Ice Department. This company sells ice makers to their customers. In the following assignment, a managerial report has been prepared in order to report the financial performance of the company to the operational manager. The main focus of the task was to prepare the income statement of the company by the help of two methods along with the job costing system and inventory management of the system. Managerial accounting system has been discussed in the task along with benefits for the Ice Department. Break-even analysis have been performed in this report in order to find out the breakeven point and as well as units that must be sold out in order to gain the desired profit.

Management Accounting for Ice Department

Management accounting comprises of two terminologies. These are “Management” and “Accounting”. Management accounting deals with different aspects of accounting that are related to the management of the company (Shushila, 2019). However financial accounting on the other hand helps to report results of financials of entire business in order to evaluate the profitability of the company. Moreover, it uses various types of accounting standards as well as in order to compare the financial performance of the company with its competitors.

In the case of Ice Department, it can help the management of Ice Department in order to take certain decisions for the benefit of the company. It is regarded as a way to represent the information related to accounting in order to assist the higher authorities of the company to create policies for day to day operations that are being carried out within organization. There are three main methods that can be used to report the management accounting. In terms of Ice Department,

written and graphical methods will be suitable in order to report financial statements to the managers of the Ice Department. These two methods are suitable due to many reasons. As income statement is calculated of one year so, it is impossible to present it on the graph.

Methods used in Management Accounting Reporting

Implementation of management accounting processes will enable the accountants in representing the managerial accounting information in an operative manner so that the organization is able to take strategic decisions for the smooth transition of the business. With the application of the management accounting processes. The profitable operations of the management are easily visible before the stakeholders. There are different types of management accounting reports financial statements, accounts receivable report, job cost reports and stock & manufacturing reports

Benefits of the Management Accounting

In order to survive in the market, management must have to take certain decisions for the profitability of the company. In order to compete with its competitors, one of the fundamental requirement is to maximise financial performance of the company by means of productivity and its services to their customers. Each sector within the organization works efficiently with the best of their abilities in order to make the performance better as compare to the previous year (Mehrdad, 2015; Saeed, 2015). Management accounting, by its definition, helps to increase in the efficacy of different departments in the organization. Therefore, management of the Ice department will be benefited by this aspects.

- It can help the company to improve the performance and control the specific department within Ice Department.

- It can help the management of the Ice Department to allocate the budget in different departments as per their needs.
- Profit maximisation of each department can be made efficiently with less time as well and in this way planning and forecasting can be made.
- It can mainly help the Ice Department to produce good quality of products in affordable cost with less time.

Job Costing System

Job costing system of the Ice Department explains brief information related to the costs that is associated with the production and other different aspects. All materials was purchased by the Ice department in first month year, January 2020. Overall revenue of the year is recorded from the sales of Ice makers \$9,000,000. These sales are of 45,000 units that are being sold out by the company. Regarding the production of the Ice Department, that is recorded as 50,000 units per year through which 5,000 are left as unsold items and in this way these are stored in the inventory of the company. One unit is prepared in 2 hours and \$10 per hour are being paid by the company to the worker. Therefore, overall cost on the labour is calculated to be \$1,000,000. Other expenses are also considered by the company like rent of factory, cost of administration and cost of distribution of the products to the clients. These costs are also calculated and sum of these costs are equal to the \$350,000. After the deduction of these expenses from the gross profit of the company, profit is calculated that is equal to \$6,600,000. These figures of the profit also noted as the net income of the ice Department.

Critically Evaluation

Management accounting can be considered as critical as one of the main aspects that can shape the entire organisation. This system can also help the different departments in the

organisation in order to evaluate their performance. Moreover, these sectors help the management of the organisation to take different decisions that are based on the performance. On the other hand in the traditional financial accounting, there are certain characteristics in it which are useful to the shareholders of the company (Smith, 2017). It provide attempts to the management of the company in order to provide feedback to the company within the marketplace. Financial performance of the company help the organisation to compare it with the competitors of the company along with the industry.

Income Statement

Income statement of the Ice Departments mainly comprises of different heads. These heads are revenue or sales of the company, cost incurred on the sales and expenses of the company. These heads are further divided into sub heads. Expenses of the Ice Department comprises of factory rent, distribution cost, admin cost and labour cost. Income statement of the Ice Department has been prepared according to the standards of IFRS and it explains the overall profit of the company in a year.

INCOME STATEMENT OF ICE DEPARTMENT	
Particulars	Amount
Revenue	£9,000,000.00
Inventory	£ 1,000,000.00
Cost of Sales	£ 50,000.00
Gross profit	£7,950,000.00
Expenses	
Labor Cost	£ 1,000,000.00
Factory Rent	£ 250,000.00
Admin Cost	£ 60,000.00
Distribution Cost	£ 40,000.00
Total Expenses	£1,350,000.00

PROFIT FOR THE YEAR	£6,600,000.00
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Break Even Analysis

In order to calculate the safety margin for the Ice Department, break-even analysis has been performed. From the perspective of managerial accounting, break even analysis of the company is slightly different from the financial accounting. Factor of revenue and profits are different in both aspects of accounting. Products can be made more costly in order to generate more revenue. Main variables for the calculation of break-even analysis of Ice Department are total variable cost which are comprised of labour cost on the product, fixed cost that is comprised of expenses.

Break Even Analysis of Ice Department						
Ice Cream	Labor Cost	TVC	Fixed Cost	Total Cost	Desired Profit	
0	£ -	£ -	£ 350,000.00	£ 350,000.00	£ 100,000.00	
1	£ 20.00	£ 20.00	£ 350,000.00	£ 350,020.00		
10000	£ 200,000.00	£ 200,000.00	£ 350,000.00	£ 550,000.00		
30000	£ 600,000.00	£ 600,000.00	£ 350,000.00	£ 950,000.00		
50000	£ 1,000,000.00	£ 1,000,000.00	£ 350,000.00	£ 1,350,000.00		
70000	£ 1,400,000.00	£ 1,400,000.00	£ 350,000.00	£ 1,750,000.00		
90000	£ 1,800,000.00	£ 1,800,000.00	£ 350,000.00	£ 2,150,000.00		

Break-Even Point	1944 Units
At Desired Profit	2500 Units

From the above analysis of the Ice Department, 1944 units are calculated break-even point which means at this point, Ice Department has zero loss along with zero profit. However, Ice Department desired to make profit of \$100,000 for the specific period of time and for this purpose it has sold at least 2,500 units in that period.

Conclusion

Above assignment revealed that managerial accounting is one of the tool that is being used in the organisations in order to evaluate the performance of different departments within the organisation. On the other hand financial accounting is based on opposite perspective to it. However, job cost system of the Ice Department explains the cost of the company that is being incurred by the management of the company in different perspectives.

ASSIGNMENT PART 2

Introduction

In the following assignment, different tools are considered for the budgetary control of the Ice Department Company. Among these planning tools, PEST Analysis have been applied on the company along with advantages and disadvantages. These analysis have been performed in order to find out the factors that can be good with respect to these analysis. Moreover, few financial problems have been highlighted for the Ice Department and its one of the Competitor in United Kingdom (i.e. Klarstein Company). These problems are of Brexit, efficiency and maximising the profitability. In the last these problems are being solved in the light of management accounting.

Planning Tools for Budgetary control

The main role of managers of the company is to take decisions that are based on the information provided them by the manger accountants. These decisions are mostly related to plan and forecasting the sales and profit of the company in many aspects. In this way different goals on the company are being achieved by the help of their decisions (Garrison *et al.*, 2010; McLellan and Moustafa, 2011). These tools help the management of the company to allocate their resources in order to gain more productivity along with the time saving. On the other hand, there are different types of planning tools that are being used by the companies. In terms of Ice Department, budgetary control is based on the future information. Moreover, future needs (i.e. financial) are estimated by the company in an order base in budgetary control. Other purpose of this control system is to control the financial performance of the company.

PEST Analysis

PEST stands for political, economic, social and technology. This is regarded as one of the strategic tool that is used by the organisations in order to evaluate the different macroeconomic factors and their impact on the business of the company. These factors are based on four forces and that are political, economic, social and technology (Gupta, 2013; Halik, 2012). These analysis also help organisations to overview the crucial factors and take initiative in order to remove their impact on their organisations. However, one of the main significance of these analysis are to vary from industry to industry.

Advantages of PEST Analysis

As PEST analysis of the company are based on different factors that are economic by nature. In terms of Ice Department, following are the advantages of the PEST analysis in detail.

- One of the main advantage of the PEST Analysis is the understanding of environment that is suitable for the Ice Department. By which the productivity of the company can be enhance.
- As these analysis help to identify the factors. Therefore it can also encourage the management of the company to think strategically for the development of the company.
- Factor of technology is one of the most important on the PEST Analysis, therefore it can help to identify number of different opportunities for the company.
- These analysis can also help the management of the Ice Department to aware from the threats that are related to their business.

Disadvantages of PEST Analysis

Every matter have disadvantages as if there are some advantages associated with it. Following are the some disadvantages of the PEST Analysis for the Ice Department.

- Main disadvantage of the PEST Analysis for the Ice Department is that it can only identify or simply list down the associated problems with the company whereas it cannot provide their solution.
- These Analysis can also help to collect huge information which can be difficult for the Ice Department to identify their main issues like other companies have these sort of problems.
- These analysis can help to cover only those analysis that are related to the external environment of the company, not with the internal environment. External environment can include the factors such as Ice Department itself along with its competitors.

Responding to Financial Problems

Financial and management accounting is regarded as one of the essential for the organisation as it has the capacity for the change in the financial performance of the company as well as financial position. Following are the some financial problems for the Ice department Company.

Brexit

Brexit is regarded as one of the main unusual problem for all the companies based in the United Kingdom. There are number of factors that are associated with Brexit in order to create problems for the companies. For example, there is uncertainty that if the United Kingdom will

leave the European Union or maybe it will not be able to do so. In both aspects it will have some of the positive impacts on the financial performance of the companies as well as negative impacts. In terms of Ice Department, it can be a problem related to the labour and production of the company.

Efficiency

As the Ice Department Company is based on number of departments. Therefore performance of each department is very essential for the performance of the company. Efficiency is one of the other problem that is associated with the financial performance of the company.

Maximising the Profitability

Financial position of the Ice Department Company is sometimes measures for the specific period of time from its profitability and in this way it is compared with its competitors that is Klarstein Company. Maximising the profitability of the company is also related to the financial problem of the companies on terms of management accounting.

Ice Department as Respondent

As mentioned above problems are being faced by the Ice Department in terms of financials. Therefore, these problems must be sorted in order to increase the productivity of the company. In, the order to solve these mentioned problems, operational management of the Ice Department Company reduce the cost that is associated with the operations like distribution of the products. The company can also reduce the quantity of the product that are placed as an inventory. The management of the company can also reduce the other expenditures and price of the product in order to increase the sales that will ultimately effect the sales of the Ice Department on positive way.

Klarstein Company as Respondent

Klarstein Company is another company that is also into ice making by its profile and it is also regarded as a competitor of the ice Department. These above mentioned financial problems are also being faced by this company and the management of the Klarstein Company have taken certain steps in order to mitigate these problems. The company have evaluated the performance of each department by the help of management accounting in order to find out specific department that needs to be focused more. Moreover, most of the costs associated with different operations have been reduced with the help of management accounting.

Conclusion

In the above assignment PEST analysis have been performed in terms of advantages along with disadvantages for the company of Ice Department. It is concluded that these analysis can be beneficial in terms of providing suitable environment for the company to increase the productivity and to identify the number of factors that can be helpful for the company in order to increase the sales. However, these analysis can only provide bulk amount of problems but not solution that can be regarded as one of the main disadvantage for the Ide Department. Brexit, efficiency of the departments within the organisation and maximising the profitability are regarded as few problems for the Ice Department and its competitor Klarstein Company. These problems can be sorted out by the help of tools of management accounting.

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