

Introduction to Management Accounting

Chartered Accountancy Business Level 2 BL6 - Management Accounting (MA)

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B.Sc. (Finance) USJ (UG), MAAT (Prize Winner), CASL (Passed Finalist)



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BUSINESS LEVEL II MANAGEMENT ACCOUNTING

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CA Pillar and Level Summary



Subject Content

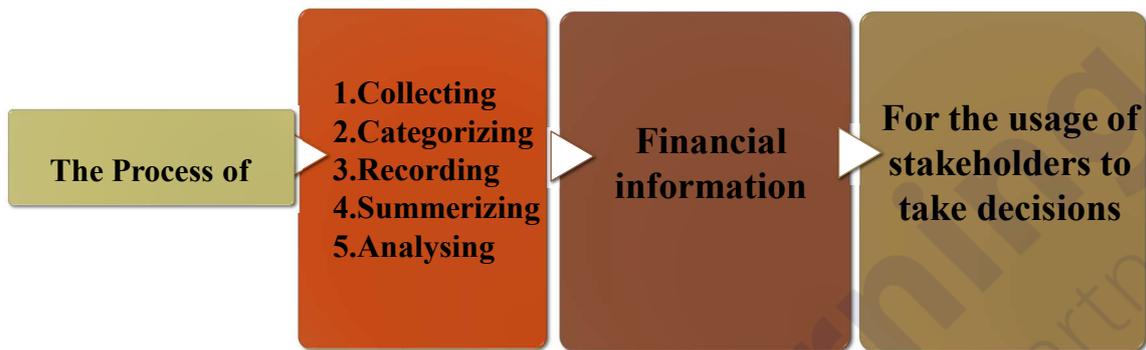
Topic	Percentage
Cost Accounting	35%
Planning and Control	20%
Decision Making	25%
Risk & Uncertainty	10%
Working Capital Management	10%



Lesson 01 : Introduction of Management Accounting
Lesson 02 : Cost Classification
Lesson 03 : Labour Cost
Lesson 04 : Overhead Cost
Lesson 05 : Pricing
Lesson 06 : Intergraded Accounting System
Lesson 07 : Costing Methods
Lesson 08 : Process Costing
Lesson 09 : Marginal & Absorption Costing
Lesson 10 : Standard costing & Variance analysis
Lesson 11 : Budgeting
Lesson 12 : Short Term Decision Making
Lesson 13 : Long Term Decision Making
Lesson 14 : Risk & Uncertainty
Lesson 15 : Inventory Control

Introduction of Management Accounting

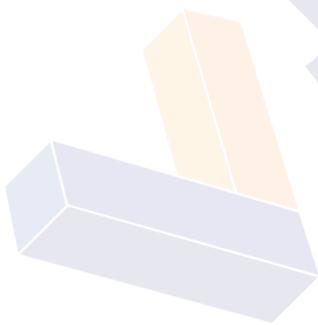
Financial Accounting ?



Management Accounting ?



Cost Accounting ?





Differences Between Cost Accounting & Financial Accounting

02. Time period

Cost Accounting

✓ Reports prepare using both Historical data and Future Estimation

Financial Accounting

✓ Reports prepare Using only Historical data

Differences Between Cost Accounting & Financial Accounting

03. Usage of Accounting Policies

Cost Accounting

✓ Reports prepare based on the management requirements.

Financial Accounting

✓ Reports prepare using commonly accepted accounting standards and policies.

Differences Between Cost Accounting & Financial Accounting

04. Time Period

Cost Accounting

✓ Based on the management requirements (Can be prepared Weekly, Monthly, Quarterly or Annually)

Financial Accounting

✓ Reports prepare annually.

Differences Between Cost Accounting & Financial Accounting

05. Legal Requirement

Cost Accounting

✓ It is not a legal requirement.

Financial Accounting

✓ But This is a legal requirement.

Differences Between Cost Accounting & Financial Accounting

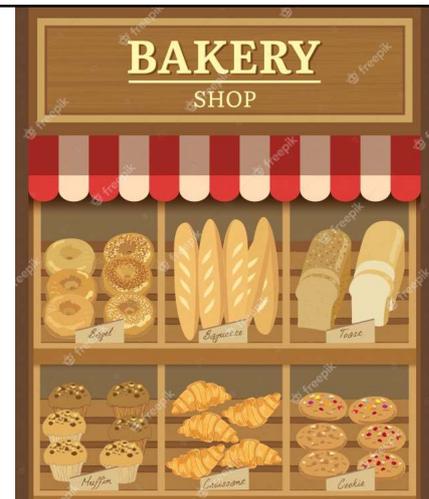
06.Coverage

Cost
Accounting

✓ Cover the subdivisions or departments of the entity.

Financial
Accounting

✓ Cover the entire entity.



Basic Concepts relevant to the Cost Accounting

✓ Cost

- ❑ The Financial value of the resources that were used to producing good or providing service.



Example:

- ❑ *Furniture Shop,*

*Value of the Woods that were used as material,
Salaries that were paid to the Carpenters,
Other costs like Electricity, Rent.*



✓ Cost Unit

□ The Quantitative unit which use to measure the cost of a good or service.

Example : A One dress of the Garment Factory

Cost Centre



Cost centers mean, The Centers that collect the cost of the Entity.
This can be any of the followings.

- 1.Place
- 2.Task
- 3.Function
- 4.Activity
- 5.Person or Equipment.

Types of Cost Centers

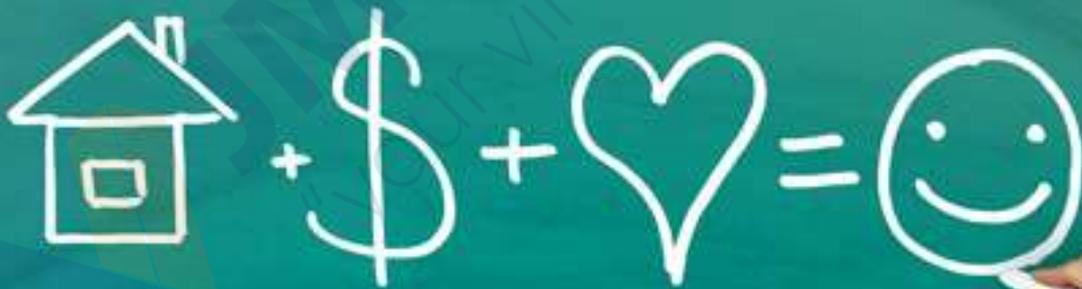
Production Cost Centers	Service Cost Centers
<ul style="list-style-type: none"> • Production cost centers mean, Centers that directly support the production process of the entity. • Example: Garment Factory <ul style="list-style-type: none"> - Cutting Department - Sewing Department - Finishing Department 	<ul style="list-style-type: none"> • Service cost centers mean, Centers that indirectly support the production process of the entity. • Example: Garment Factory <ul style="list-style-type: none"> - Stores - Staff Canteen

Data Vs Information

Data	Information
<ul style="list-style-type: none"> • Data is a collection of facts. This can be relevant to the scenarios or transactions. • Raw data alone is insufficient for decision making. 	<ul style="list-style-type: none"> • Information comprises processed, Organized data presented in a meaningful context. • Information is sufficient for decision making.

Characteristics of Good Information

- 01.Relevance – Should Relate to the aim of the users
- 02.Completeness – Should provide complete information set
- 03.Accuracy – Should be more accurate
- 04.Clarity – Should provide more clarity information
- 05.Confidence – Can increase the confidence level of the users.
- 06.Timing – Should provide at the correct time.
- 07.Cost - Should have benefit over it cost



Type of Information

Revision Kit Questions

1 Introduction to Management Accounting

1.1 Which of the following is **not** an essential quality of good information?

- A It should be relevant for its purposes
- B It should be communicated to the right person
- C It should be completely accurate
- D It should be timely

(2 marks)

1.2 Which of the following statements about management accounts is/are true?

- (i) They must be stated in purely monetary terms
- (ii) Limited companies must, by law, prepare management accounts
- (iii) They serve as a future planning tool and are not used as an historical record

- A (i), (ii) and (iii)
- B (i) and (ii)
- C (ii) only
- D None of the statements are correct

(2 marks)

1.3 A management control system is

- A A possible course of action that might enable an organisation to achieve its objectives
- B A collective term for the hardware and software used to drive a database system
- C A set up that measures and corrects the performance of activities of subordinates in order to make sure that the objectives of an organisation are being met and their associated plans are being carried out
- D A system that controls and maximises the profits of an organisation

(2 marks)

1.4 Which of the following statements are correct?

- (i) Strategic information is mainly used by senior management in an organisation
 - (ii) Productivity measurements are examples of tactical information
 - (iii) Operational information is required frequently by its main users
- A (i) and (ii) only
 - B (i) and (iii) only
 - C (ii) and (iii) only
 - D (i), (ii) and (iii)

(2 marks)

Level	Activity
Strategic	Involved with monitoring and controlling the organisation as a whole, making decisions on areas such as opening of new shops and factories or investment in new product line.
Tactical	Responsible for implementing the decisions of strategic managers and ensuring that the different divisions or departments within the organisation are operating correctly.
Operational	Controlling the day-to-day operations of the organisation, reporting queries or problems back to tactical management for decisions as necessary.

1.5 Which of the following statements are correct?

- A Forecasts will always provide a good source of data for historic costs
- B Financial accounts provide the best source of data for future costs
- C A good source of data for historic costs are the financial accounting records and the documents that back up these records
- D It is a legal requirement to produce management accounts **(2 marks)**

1.6 Which of the following statements about management accounting is/are false?

- (i) Reports relate to what happened in the past
- (ii) Maybe made public
- (iii) Gives up to date reports which can be used for controlling the business

- A (i) and (ii) only
- B (i) and (iii) only
- C (ii) and (iii) only
- D (i), (ii) and (iii)

(2 marks)

1.7 Which of the following do management accountants provide information to management on?

- (i) Costs of goods and services
- (ii) Actual costs compared to expected costs
- (iii) Expected profits and production plans

- A (i) and (ii) only
- B (i) and (iii) only
- C (ii) and (iii) only
- D (i), (ii) and (iii)

(2 marks)

1.8 Which of the following statements about financial accounts is correct?

- A Forecasts will always provide a good source of data for future costs
- B Financial accounts provide the best source of data for historic costs
- C Are designed to meet the requirements of people inside the business
- D It is not a legal requirement to produce financial accounts **(2 marks)**

1.9 Which of the following is **not** a type of information?

- A Strategic
- B Relevant
- C Operational
- D Tactical

(2 marks)

1.10 Choose the correct word to complete the 2 sentences below:

- (a) (Data /Information) is the raw material for processing.
- (b) (Data/Information) has already been process in such a way to make it meaningful to the person who receives it. **(2 marks)**

1.11 Which of the following statements is true?

- A Strategic tasks are highly structured
- B Operational tasks are short term in timescale
- C Tactical information is mostly external
- D Operational plans are implemented by top level management

(2 marks)

1.12 Seb works as a supervisor in department B of T Co. He is looking at short-term, detailed information about expenses in department B.

Jai is looking at long-term loan options from various banks for T Co.

Which levels of information are Seb and Jai working with?

- A Seb: Strategic information Jai: Management information
- B Seb: Operational information Jai: Strategic information
- C Seb: Strategic information Jai: Operational information
- D Seb: Management information Jai: Strategic information

(2 marks)

