# Management Accounting Report for Imda Tech (UK) Limited

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# Introduction

Management Accounting is the provision for the financial data in which the management of the accounts in an organisation is provided. In this unit, the basic concentration is on accounts management of Imda Tech Limited. This report aims at developing the information of fundamentals and principles of management accounting. In this report, the learning will be based on exploring management accounting and the financial data to plan and make decisions. This report presents the understanding of the financial statements at the workplace. This also enhances the skills of financial management and knowledge related to the management accounting. The management accounting techniques is also important and well understood in this report. This unit will create a better understanding to solve the financial problems.

**Task 1**

**a) Prepare a well-researched written report on the functions of Management Accounting. Your presentation should cover among other things**

**Introduction**

In this report, the presentation of financial accounts of Imda Tech (UK) is provided. A contrast between financial and management accounting is also shown under this report. The management accounting importance in an organisation is also discussed under this report. The different types of management accounting systems are explained in this report.

## i. Define Management Accounting and to distinguish Management Accounting from Financial Accounting.

In the words of Macintosh and Quattrone (2010), Management accounting is process of identifying, measuring, analysing and interpreting as well as communicating the information (Macintosh and Quattrone, 2010). Management accounting is based on the identification and measuring the accounts of company. This includes the management of accounting systems in an organisation with the help of analysing and interpreting with the communication of the information of an organisation.

Management accounting is different from the financial accounting as management accounting helps in understanding the management of the accounting systems and financial accounting is financial aspects of the accounts (Macintosh and Quattrone, 2010).

The whole accounting system is accumulated with financial and management accounting data in which the cost accounting system is provided.

| Management accounting | Financial accounting |
|---|---|
| Management accounting provides the information for planning, controlling the organisation's operations. | Financial accounting is to publish the financial statements with the other financial reports. |
| Management accounting is used by the internal users. The management accounting statements are used by the organisational members. | The financial accounting is used by the external users in which the financial accounting statements are used by the other people than the organisational members. Such as stakeholders, customers etc. |
| Management accounting is based on the different rules and is related with the accounting of management. | Financial accounting follows the rules imposed and provides the whole summarized information of an organisation. |

**Table 1: Difference between Management Accounting from Financial Accounting**

*Source: (Macintosh and Quattrone, 2010)*

## ii. The importance of management accounting information as a decision making tool for department managers. (M1)

Management accounting system is the important aspect in getting the information about the management of accounts. In management accounting, the economic events, information about the financial accounting and non-financial accounting and subjective information are provided. This helps the organisations to get the result as special reports, product costs, customer's costs, performance and budget reports (Weil, et. al., 2013). This whole process includes collection, measurement, analysing, reporting and management of the organisation.

This importance of management accounting in Imda Tech (UK) Limited is to provide the complete management of the accounting systems of an organisation. The management accounting provides information to the management of Imda Tech (UK) Limited for-

- **Costing of products and service**- It helps in providing the costing management of the products and services in Imda Tech (UK) Limited.
- **Major decisions-** Major decisions are those in which the different accounting management principles are used to help an organisation in managing the organisation.
- **Performance assessments-** The performance assessments provide the evaluation of the performance of the financial statements in an organisation.
- **Adds value-** This adds value by providing the information for decision making and planning, measuring controlling and managing the Imda Tech (UK) Limited activities (Weil, et. al., 2013).

## b) Explain the different types of Management Accounting Systems and how it can be used by other departments to improve their reports. Your explanations should cover among other things: An explanation of- (D1)

**i. Cost accounting systems (actual, normal and standard costing)-** Cost accounting systems includes three types of management accounting systems which are actual costing systems, normal costing systems, and standard costing system. The actual costing system charges the actual direct materials, actual direct labour, and actual manufacturing overhead. The cost charged in normal costing system includes actual direct material, actual direct labour, and estimated manufacturing overhead. The costs charged in the standard costing involve standard direct materials, standard direct labour and standard manufacturing overhead (Drury, 2013).

**ii. Inventory management systems-** The inventory management systems are based on the management of the stock and this also helps in providing the improvement in the management of the stock in an organisation. This affects the financial management accounting and this enhances the inventory management. This affects the inventory and is complex management system.

**iii. Job costing systems-** The job costing systems are which provides the accumulated cost by the job. This includes the wide variety of the distinct products. Job costing also provides the unit costing by dividing total job cost by the number of units produced. This is time consuming systems and lowers down the efficiency.

**iv. Price optimising system**- Price optimising systems are the management accounting tool which helps in optimising the prices of the management accounting systems. This helps in improving the cost and the prices in an organisation (Muller, 2011). This is costly system which affects the organisation's expenses.

**v. Process costing-** The process costing is the cost accumulated by the process. This cost generates form the various processes in an organisation. From this process, the unit cost can be calculated by dividing total cost for period by the number of units. This is as well as costly and time consuming system (Muller, 2011).

**Conclusion**

From the above management report, the management accounting is defined and the major difference between the management accounting and the financial accounting are provided.  In the above management report, the management accounting and the importance of the management accounting is the provided in context with the decision making tool. The different management accounting systems and their critical evaluation in the business are properly understood above in the report.

## Task 2

### i. Absorption costing

Absorption costing is the system which includes the fixed cost and variable costing which are considered the product costs. In absorption costing fixed costs are not calculated and does not considered. It is the apportionment of the overall costs which determines the total cost of production. The different overheads which are considered in this cost is production, administration and selling and distribution cost (Gupta, et. al., 2010).

| | Income statement as per Absorption costing | | |
|---|---|---|---|
| | | | |
| | **Particular** | | **Amount (in £)** |
| | Sales | 1500*£35 per unit | 52500 |
| Add | Closing stock | | 0 |
| Less | Cost of Goods sold | | |
| | 1500 units x £ 20 | | 30000 |
| Less | Opening stock | | 0 |
| | | | |
| | **Gross margin** | | **22500** |
| | | | |
| Less | Selling and administrative expenses | | |
| | variable selling and administrative expenses | | 7875 |
| | 15% of 52500 | | |
| | Fixed selling and administrative expenses | | 10000 |
| | | | |
| | **Net operating Income** | | **4625** |

**Working note-**

| Unit Product cost | |
|---|---|
| **Particular** | **Amount (in £)** |
| Direct material | 8 |
| Direct labour | 5 |
| Variable manufacturing overhead | 2 |
| | |
| Total variable production cost | 15 |
| Fixed manufacturing overhead | 5 |
| | |
| | |
| **Unit product cost** | **20** |

Source: (Gupta, et. al., 2010)

### ii. Marginal costing

The marginal costing refers to the cost which helps the organisation in decision making which ascertain the total cost of production. In this costing method, only variable cost is considered and fixed cost is not considered. The two overheads are variable and fixed which are included in this (Morris, et. al., 2012).

| | **Income statement as per Marginal costing method** | | |
|---|---|---|---|
| | **Particular** | | **Amount (in £)** |
| | Sales | 1500*£35 per unit | 52500 |
| | | | |
| Less | Variable expenses | | |
| | Variable production cost | 1500* £ 15 per unit | 22500 |
| | variable selling and administrative expenses | 15 % of 52500 | 7875 |
| | | | 30375 |
| | Margin contribution | | 22125 |
| | | | |
| Less | Fixed expenses | | |
| | Fixed production overhead | | 15000 |
| | Fixed Selling and administrative expenses | | 10000 |
| | | | 25000 |
| | Net operating Income | | -2875 |

**Working note-**

| **Unit Product cost** | |
|---|---|
| **Particular** | **Amount (in £)** |
| Direct material | 8 |
| Direct labour | 5 |
| Variable manufacturing overhead | 2 |
| | |
| **Unit Product Cost** | **15** |

| | Reconciling Statement for Absorption and variable costing | |
|---|---|---|
| | **Particular** | **Amount (in £)** |
| | Variable costing net income | -2875 |
| **Add** | Fixed manufacturing overhead costs difference in inventory | 7500 |
| | Absorption costing net income | 4625 |

**Interpretation-** From the above, we can interpret that the product cost is high with the use of absorption costing and to lower down the price the company used the reconciliation statement which provided that the organisation must consider the marginal costing. The marginal costing the fixed overhead is not included and the variable costing is included. This lowers down the cost of the company (Morris, et. al., 2012).

## Task 3

**Introduction**

Budgeting is defined as an assessable interpretation of monetary planning for a defined period of time, It includes premeditated trades, income generation, operating cost, earnings, company resources, its liabilities, its income flows, it is a systematic planning of the organization related to its financial terms. The budget is the actual formulation of translating the strategic plan into its financial units, it helps to analyse whether the determined plan is practicable by putting financial statistics to its implementation.

### a) Different types of budgets and their advantages and disadvantages.

Budgeting plays a very important role in allocating of resources in a proper manner here are its advantages and disadvantages.

**Production Budget**-It calculates the number of products which has to be manufactured within a year with the combination of its sales forecast in the particular year. It includes the material required to keep ready availability of stock at the time of demand (Velluet, et. al., 2014). Production budget carries some merits and demerits-

**Merits-**It helps in proper utilization of available resources which includes material, capital, and labour, and helps in maintaining the minimum stock of goods

**Demerit**s-Misrepresentation can be caused by production budgets, as it affects the non-financial factors which also influence the final decisions.

**Overhead Budget**- It is an estimated cost of all other production cost with exclusion to direct materials and direct labour cost, it is based on a budgeted unpredictable operating cost, and the operating cost will remain unchanged as the stage of the action changes

**Merits**- By considering the manufacturing overhead it can efficiently manage the price and profit of each product. Overhead cost is also eligible to tax deduction

**Demerits**-Overhead budgeting can force to lead in rising of prices, which can lead to inflationary situation

**Cash Budget**– It determines the cash inflow and outflow of the current year, it also determines whether the company has sufficient balance to run the company

**Merits-** Cash budgeting helps the management to concentrate into the specific matter which is not working according to plans, its helps in maintaining coordination between employees and employers to achieve the targeted goals (Velluet, et. al., 2014).

**Demerits**-It is the subjective estimation of the targeted goals which can take more time to achieve moreover it can decrease the morale of the employees.

## b) The process of preparing budgets

The key skills required to prepare the budget is

**Update Budget assumption**-Budgets are always prepared on certain presumptions before making budget it is necessary to review the trends of the market such as cost trend, sell trend.

**Available funding**- Before preparing budget attention is to be paid to available funding resources.

**Steps costing points**- Business culture is dynamism in nature, therefore, it is prone to changes, therefore, the factors affecting the cost of business should be closely considered.

**Create Budget package**-standard reference of previous year budget is taken as precedents to prepare current budget considering recent environmental conditions (Porter and Simpson, 2013).

**Obtaining revenue budget**- Sales is the important factor in determining the generation of revenue.

**Obtaining capital budget request**- Capital requirement is necessary for business growth, therefore, future expenses should be taken in consideration.

**Obtaining approval**-The budget should be presented to the top management for its approval, whether the necessary points are included in budget.

**Issue the budget**- Budget once approved is issued in the organization (Porter and Simpson, 2013).

## c) Pricing strategies

The pricing strategies refer to the planning and controlling of the prices in an organisation with the different strategies. Pricing refers to the cost or the amount incurred and must be covered by selling the products and services.

Pricing depends on the pricing decision and pricing decisions are affected with various aspects which are customer demand, political and legal issues, competitors and costs. The prices are set by the profit to be earned in a long run (Wu, 2012). The costs and customers and competitors also influence the prices. There are different types of pricing strategies which are-

**Cost-Plus Pricing**- The cost plus pricing refers to the pricing strategy in which the in addition to the cost the different incurred cost are also added. The cost plus pricing includes the variable manufacturing cost, fixed manufacturing cost, full absorption cost, and variable and fixed cost. This provides the organisation with the different cost to measure the price.

**Absorption-cost pricing-** Absorption cost pricing is the prices which covers the overall costs. These costs are perceived as equitable. It enhances the comparison with competitors; the absorption cost is used for the external reporting (Wu, 2012). This cost provides the full absorption unit price which damages the difference between the variables and the fixed costs.

**Variable cost Pricing**- Variable cost pricing is the strategy for the pricing of an organisation's products. This pricing strategy helps certain the cost behaviour patterns. The allocations for the fixed cost done not required to give a though under this pricing strategy. This pricing strategy is very useful to the managers.

**Return on investment pricing**- Return on investment provides the amount received from the investment and increase the prices. The return on investment is calculated by dividing income from the invested capital. The return on investment is the pricing strategy to provide the pricing of the products and services of the organisation by gaining the return on investment (Wu, 2012).

**Conclusion**

From the above management report, the different types of budgets and their advantages and disadvantages are provided. The types of budgets which are majorly used in the Imda Limited are provided in this report. The process which helps I preparing and developing the budgets in an organisation are explained accordingly. The different pricing strategies which help an organisation to set the prices by an organisation are also covered under this report.

**Task 4**

**a.) Explain what a Balance Score Card approach is and describe how the implementation of a balanced scorecard can deliver a range of performance measures (financial and non-financial).**

There are various financial and non-financial problems which are faced by an organisation. The financial issues and non-financial issues are to be faced by an organisation to manage the problems and risks and maintain the influence of an organisation. In the situation of Imda Tech (UK) Limited the managers are suggested to use the balance score card approach.

Balance score card approach- Balance score card approach refers to the management tool which enables to measure the performance. The balance scorecard is strategic planning of the management accounting which is used to manage internal and external communications and to monitor the organisation's performance in context with the strategic goals and objectives of an organisation (Boscia and McAfee, 2014). The balance scorecard helps in understanding the different perspectives of an organisation which helps in achieving the organisational performance as desired. The balance scorecard has the software which by installing in an organisation helps to achieve the performance of the organisation irrespective of the organisational financial and non-financial issues.

As per the words of Boscia and McAfee (2014), balance score card is the management tool which identifies the short term financial position of an organisation and measure the performance accordingly (). There are four major perspectives of balance score card which includes:

**Financial performance-** The financial performance of the organisation is identified with the help of which the organisation can measure the financial position of an organisation. The balance scorecard is provided to measure the performance of the organisation financially (Boscia and McAfee, 2014).

**Customers**- In the current scenario customers are major focused part of an organisation which are required to be satisfied. The satisfied customer provides the organisation with the growth. With this balance score card, the customer satisfaction can be improved by performing well in an organisation. This is the motive of the balance scorecard (Bostan and Grosu, 2011).

**Innovation and growth-** The other perspective for which the balance score card approach is used by an organisation and is suggested by the auditor of Imda Tech (UK) Limited is that they provide the innovation and growth as the overall aspects of the organisation are considered and are used.

**Internal process**- The business processes which are used internally are properly managed by an organisation with the help of Balance scorecard approach. The issues and problems related to the internal process are considered in this approach to solve and make the process smooth to work in an organisation (Bostan and Grosu, 2011).

The implementation of balance score card in an organisation to measure the performance is used by using the key performance measurement.

With the use of key performance measurement, the benchmark is to be set by an organisation to provide the target to the organisation to beat the benchmark and achieve it.

The key performance indicators are then used in the business intelligence to reach or achieve the business current stage. This makes the organisation to evaluate and analyse the performance of the organisation (Bostan and Grosu, 2011).

## i. How it can be used to identify and respond to financial problems? (M4, D3)

The balance score card used to help the financial problems of the company by measuring the objectives and achieved target of the organisation. The financial problems are responded with the balanced scorecard by using the measurement and comparison of the financial targets of the organisation. The financial performance of the organisation is measured with the use of balance scorecard. The performance of the past years and current year are shown in the columns which provides the objectives and benchmark set for the same and compare it accordingly (Barndt, et. al., 2011).

This performs well in the case of comparing the performance by the objectives achieved but it does not shows the proper financial performance affected because of. This reason affects the balance score card performance in different organisations.

## ii. How it can be used to improve financial governance and development of effective strategies.

Financial governance is the responsibilities related to the financial duties and obligations of a director. The balance scorecard can be used to improve the financial governance of the organisation Imda Limited by comparing and measuring the performance of the organisation. In case the performance does not match the organisation need to improve the financial governance by matching the responsibilities of the financial persons like auditor and accountant of the company to match the benchmark set by the balanced score card. It helps the auditors and financial persons to prepare the sustainability reports (Barndt, et. al., 2011).

The development of effective strategies is provided with the balanced card by designing the effective strategies for the gap to overcome the performance gap. The performance of the budget provides the company to understand the effect on financial position and to develop the strategies according to that. To complete the performance of financial reports and match them with the benchmark the effective strategies are provided (Barndt, et. al., 2011).

## Conclusion

From the above report, it can be concluded that the management accounting is to provide the control and planning of the accounts in such a manner to increase communication and management of accounts. The above report provided that the Imda must consider the proper management of the accounting systems to get the higher performance. The suggested performance measurement tool, balance score card by the auditor of the company must be considered by Imda Limited. This will improve the financial governance of the company as well as the various strategies of the company. The overall report enable in understanding the management accounting fundamentals and systems.

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