Management accounting - MBA

Béla Kántor

About me

- Subject responsible
- Email: stkbela@uni-miskolc.hu
- Office: A/4 2. floor 215. room
- Phone: +36 46 565 111/2330
- Downloading site: http://gtk.uni-miskolc.hu/uzleti/letoltesek

About the subject

- Lecturers: Béla Kántor, Judit Füredi-Fülöp, Anita Demény, Vivien Jakkel
- Invited lecturers: managers of multinational companys
  - Anita Kovácsné Gönczi – Columbian Tiszai Koromgyártó Kft.
  - István Hegedűs – BorsodChem Zrt.
  - Roland Balogh – PricewaterhouseCoopers (

Requirements

- Signature and exam

- *Conditions of signature:*
  - Students form teams with 2 members and choose a topic in the field of Management Accounting (deadline: 9th week)
  - For the 11th week they prepare an 8-10 pages essay about the choosen topic (MS Word document, Times New Roman 12, Space 1.5)
  - On the 12th week students make a presentation about the choosen topic (12-15 slides)
  - The total score of the essay and presentation is 10 points per person, from which 60 % have to be achieved in order to obtain the signature

Requirements

- The selected topics:
  - The self cost calculation rules (Hungary or other counrties)
  - The metods of self cost calculation
  - Zero Based Budgeting
  - Balanced Scorecard
  - Management reporting
  - Management accounting systems
  - Modern calculating solutions - Better budgeting
  - Modern calculating solutions - Advanced budgeting
  - Modern calculating solutions – Beyond budgeting
  - Value-based management (VBM)

Requirements

- Exam:
  - The written exam has theoretical and practical questions
  - The total score of the exam is 40 points, from which 51% have to be achieved to pass the examination

- Mark: The total score of the semester is 50 points.
  - 0-25 points: fail (1),
  - 26-33 points: pass (2),
  - 34-38 points: satisfactory (3),
  - 39-44 points: good (4),
  - 45-50 points: excellent (5)

Requirements

- Lectures ppt
  - Download site http://gtk.uni-miskolc.hu/uzleti/letoltesek
  - English subject / Management Accounting
- Other readings:
  - Colin Drury: Management and Cost Accounting, Seventh Edition, Cengage Learning EMEA, 2008
  - Leslie Chadwick: The Essence of Management Accounting, Prentice Hall International 1991. New York
  - Graham Mot: Management Accounting for Decision Makers, Pitman 1991., London
  - The Association of Chartered Certified Accountants (ACCA): Management Accounting (MA), Kaplan Publishing, 2010

Accounting

Definition of accounting

- **The process of**
  - **identifying,**
  - **measuring and**
  - **communicating**

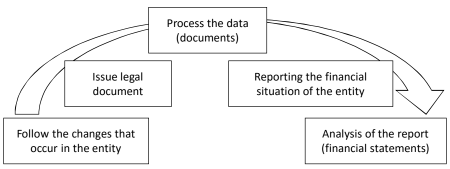
  economic information so a user of the information may make informed economic judgments and decisions based on it.
- **A service-based profession that**
  - **provides reliable and relevant financial information useful in making decisions,**
  - **financial information may include sales, expenses, taxes and other figures.**

The roll of accounting

- Target or instrument?
- Practice-orientated,
- Language of bussiness:
  - to communicate the results and position to stakeholders
- It is determinated by the technological development
- It is a part of economics
- It has past of centuries

What is acconting about?

- Why do we need accounting?
- What does accounting do/what do accountants do?



Characteristics of accounting

- It creates an information system
- It aims to be complete
- It prepares every event:
  - continually,
  - itemised,
  - all inclusive.
- Its standard/ fundamental unit is money
- It needs to be supported by vouchers
- It needs external control
- It creates a closed system
- It is output-orienated

The parts of accounting

1. Traditional approach
   a.) bookkeeping
   b.) cost accounting
   c.) financial reporting
   d.) the voucher system connected with the previous parts

2. Functional approach:
   a.) financial accounting
   b.) management accouning

Accounting information

Accounting information

- Accounting information is economic information :
  - it relates to the financial or economic activities of the business or organisation
- There are several steps involved in preparation of accounting information:
  - identification,
  - measurement
  - recording
  - communication.

Identification

- economic events (accounting information) needs to be identified and measured.
- economic events
- a sale at a gas station,
- payment of taxes by a commercial enterprise,
- purchase of insurance
- this is done by way of a "set of accounts", based on a system of accounting known as double-entry bookkeeping
- the accounting system identifies and records "accounting transactions".

Measurement

- the "measurement" of accounting information involves
- making judgements about the value of assets owned by a business or liabilities owed by a business
- accurately measuring how much profit or loss has been made by a business in a particular period.
- the measurement of accounting information often requires subjective judgement to come to a conclusion

Recording

- all economic events have to be recorded
- to provide a history of a company's financial activities
- in this step economic events are also classified and summarized

Communication

- information about classified and summarized economic events is communicated to interested parties
  - who needs the accounting information?
  - what they need to know?
- forms of accounting communication "financial statements":
  - annual report and accounts,
  - management accounting reports

Criteria of useful accounting information

- Understandability - the expression of accounting information in such a way that it will be understandable to users - who are generally assumed to have a reasonable knowledge of business and economic activities
- Relevance - implies that, to be useful, accounting information must assist a user to form, confirm or maybe revise a view - usually in the context of making a decision:
  - should I invest,
  - should I lend money to this business?
  - should I work for this business?
- Consistency - implies consistent treatment of similar items and application of accounting policies

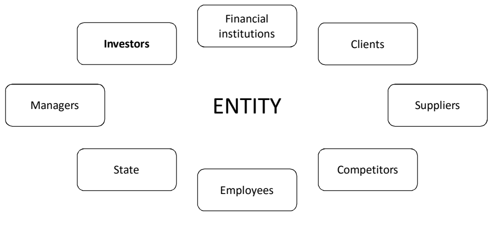
Criteria of useful accounting information

- Comparability - implies the ability for users to be able to:
  - compare similar companies in the same industry group
  - make comparisons of performance over time.
- Reliability - implies that the accounting information that is presented is:
  - truthful,
  - accurate,
  - complete (nothing significant missed out) and
  - capable of being verified (e.g. by a potential investor).
- Objectivity - implies that accounting information is prepared and reported in a "neutral" way.

Interested parties - Users of accounting information

- potential users of accounting information:
  - shareholders,
  - lenders,
  - customers,
  - suppliers,
  - government departments,
  - employees and their organisations,
  - and society at large,
- Stakeholder: anyone with an interest in the performance and activities of an organisation.
- categories of accounting information users:
  - external users: parties outside the reporting entity (company) who are interested in the accounting information
  - internal users: parties inside the reporting entity (company) who are interested in the accounting information

Stakeholders



External users

- Potential investors (owners)
  - use accounting information to make buy decisions related to shares, bonds, etc.
- Lenders:
  - Banks and loan stockholders who lend money to a business require information that helps them determined whether loans and interest will be paid when due.
- Creditors:
  - Suppliers and trade creditors requirement information that helps them understand and assess the short-term liquidity of a business. Is the business able to pay short-term debt when it falls due?
- Debtors:
  - Customers and trade debtors require information about the ability of the business to survive and prosper.
  - As customers of the company's products, they have a long-term interest in the company's range of products and services.
  - They need accounting information to decide which products and from which company to buy and they may even be dependent on the business for certain products or services.

External users

- Government:
  - There are many government agencies and departments that are interested in accounting information:
    - Inland Revenue needs information on business profitability in order to levy and collect Corporation Tax.
    - Customs & Excise need accounting information to verify Value Added Tax ("VAT") returns;
    - Local government need similar information to levy local taxes and rates.
- Investment analysts:
  - specifically for companies quoted on a stock exchange.
  - They require very detailed financial and other information in order to analyse the competitive performance of a business and its sector.
- Public at large:
  - Interest groups, formed by various groups of individuals who have a specific interest in the activities and performance of businesses, will also require accounting information.

Internal users

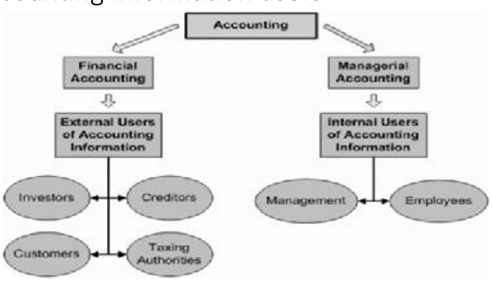
- Investors (owners)
  - use accounting information to make buy, sell or keep decisions related to shares, bonds, etc.
  - are concerned about risk and return in relation to their investments.
  - They require information to decide whether they should continue to invest in a business.
  - They also need to be able
    - to assess whether a business will be able to pay dividends, and
    - to measure the performance of the business' management overall.
- A company's senior and middle management
  - uses accounting information to run business.
- Employees
  - utilize accounting information to determine a company's profitability and profit sharing.
  - Employees (and organisations that represent them - e.g. trade unions) require information about the stability and continuing profitability of the business.
  - They are crucially interested in information about employment prospects and the maintenance of pension funding and retirement benefits.
  - They are also likely to interested in the pay and benefits obtained by senior management.

Types of accounting information

Types of accounting information

- Financial Accounts:
  - provides information that is designed to satisfy the needs of external users
  - such reporting is usually done in the form of financial statements.
- Management Accounts:
  - provides information that is useful in running a company by internal users.
  - such reporting is usually accomplished through custom designed reports.

Connection between types of accounting and accounting information users



Characteristics of accounting

Financial accounting	Management accounting
• Public information	• Private information
• For all stakeholders	• Only for management
• All operations: • exchange between entity and its environment	• Operations and other events • Focus on managerial decisions
• Standard documents	• Non-standard documents
	• Reporting period (?)
• Reporting period: financial year	**• Weak regulation**
• Strong regulation	

Comparison of financial and management accounting

Financial Accounts	Management Accounts
Describe the performance of a business over a specific period and the state of affairs at the end of that period. The specific period is often referred to as the **"Trading Period"** and is usually one year long. The period-end date as the **"Balance Sheet Date"**	Are used to help **management record, plan and control the activities** of a business and to **assist in the decision-making process.** They can be prepared **for any period** (for example, many retailers prepare daily management information on sales, margins and stock levels).
Companies that are incorporated under the **Accountancy Act (2000.C.)** are required by law to prepare and publish financial accounts. The level of detail required in these accounts reflects the size of the business.	There is **no legal requirement** to prepare management accounts, although few (if any) well-run businesses can survive without them.
The **format of published financial accounts** is determined by several different regulatory elements: • Accountancy Act (2000. C.) • Company Law (2006. IV.) • Accounting Standards (IAS, IFRS)	There is **no pre-determined format for management accounts**. They can be as detailed or brief as management wish.

Comparison of financial and management accounting

Financial Accounts	Management Accounts
Concentrate on the **business as a whole** rather than analysing the component parts of the business. For example, sales are aggregated to provide a figure for total sales rather than publish a detailed analysis of sales by product, market etc.	Can **focus on specific areas** of a business' activities. For example, they can provide insights into performance of: • Products • Separate business locations (e.g. shops) • Departments / divisions
Most financial accounting information is of a **monetary nature**.	Usually include a **wide variety of non-financial information**, for example, analysis of: • Employees (number, costs, productivity) • Sales volumes (units sold etc.) • Customer transactions (e.g. number of calls received into a call centre)
By definition, financial accounts **present a historic perspective on the financial performance** of the business	Largely focus on **analysing historical performance**. However, they also usually include some **forward-looking elements** - e.g. a sales budget; cash-flow forecast.

Process of accounting - "Financial Management"

1. Collection : in money terms of information relating to transactions that have resulted from business operations
2. Recording and Classifying: data into a permanent and logical form. This is usually referred to as "Book-keeping"
3. Summarising: data to produce statements and reports that will be useful to the various users of accounting information - both external and internal
4. Interpreting and Communicating: the performance of the business to the management and its owners
5. Forecasting and Planning: for future operation of the business by providing management with evaluations of the viability of proposed operations. The key forecasting and planning tool is the "Budget"

Corporate resources

What is specific to accounting in the view of these resources?

We are interested both

- about the use of the resource in the activity of the entity

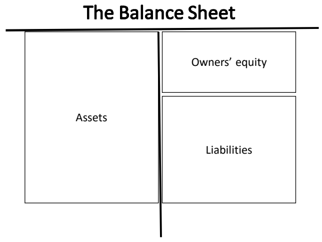
ACTIVES or ASSETS

- and about the origin of the resources (also called the source of finance)

PASSIVES or EQUITY & LIABILITIES

Corporate resources

The Balance Sheet



Balance Sheet Equation

Assets = Liabilities + Owners' equity

Assets are economic resources that are expected to benefit future activities of the organization.

Liabilities are the entity's economic obligations to nonowners.

Equities are the claims against, or interests in, the assets of the organization.

Owners' equity is the excess of the assets over the liabilities. The owners' equity of a corporation is called stockholders' equity.

Balance sheet …

Assets	*Liabilities*
A. INVESTED OR FIXED ASSETS	*D. OWNERS'S EQUITY*
I. INTANGIBLE ASSETS	*I. ISSUED CAPITAL STOCK*
II. TANGIBLE ASSETS	*II. NOT PAID ISSUED CAPITAL STOCK*
III. FINANCIAL ASSETS	*III. CAPITAL RESERVE*
	IV. ACCUMULATED PROFIT RESERVE
	V. FIXED RESERVE
B. CURRENT ASSETS	*VI. VALUATION RESERVE*
I. INVENTORY (STOCKS)	*VII. RETAINED PROFIT OF THE YEAR (NET PROFIT)*
II. RECEIVABLES (DEBTORS)	
III. SECURITIES (short term financial investments)	*E. PROVISIONS*
IV. CASH AT BANK AND IN HAND	*F. LIABILITIES*
	I. DEFERRED LIABILITIES
	II. LONG-TERM LIABILITIES
C. PREPAID EXPENSES (ACCRUED AND DEFERRED ASSETS)	*III. SHORT-TERM LIABILITIES*
	G. ACCRUED INCOME

Σ Assets = Σ Liabilities

Assets

- All the things, which are held or used by the undertaking for its operations (not including leased assets), shall be shown in the balance sheet as assets, regardless of whether the undertaking gains ownership of such assets upon the satisfaction of certain conditions prescribed by law or stipulated in the contract. Deferred expenses and accrued income shall also be shown as assets.
- On the basis of their purpose and utilization: assets shall be listed among invested assets or current assets
- Those assets shall be classified as invested assets, the purpose of which is to serve the undertaking's activities and operations on a long-term basis, for a period of no less than one year.
- The category of invested assets shall consist of intangible assets, tangible assets and financial investments.
- Inventories, receivables which do not serve the undertaking's interests on a long term basis, securities signifying a creditor relationship, share certificates and liquid assets shall be shown under current assets.

Invested assets – Intangible assets

- Are a class of long-lived assets that are not physical in nature.
- Assets other than tangible assets (such as concessions and similar rights, intellectual products, goodwill), advances shall be shown under intangible assets:
  - rights which are not related to real property: lease rights, rights of use, rights of utilization of intellectual products, licenses,
  - intellectual products: inventions, patents and industrial design of assets protected under industrial law, copyrighted software products, know-how and production technologies, trademarks, etc.

Invested assets –Tangible assets

- Material assets
  - land,
  - forest,
  - buildings,
  - other structures,
  - technical equipment,
  - machinery,
  - vehicles,
  - plant and business accessories, other equipment,
  - shall be shown under tangible assets which:
  - serve the undertaking's operations,
  - directly or indirectly,
  - on a permanent basis.

Invested assets – Financial investments

- Assets (participations, securities, loans,) which
  - have been invested by the undertaking in another undertaking or
  - have been transferred to another undertaking for the purpose
    - of gaining permanent income (dividends or interest) or
    - an influencing, directive or controlling option therein shall be shown under financial investments.

Current assets - Inventories

Inventories are assets serving the undertaking's activities, directly or indirectly, which

a) were acquired for the purpose of resale within the framework of regular (routine) business operations, and which remain unaltered before sold (goods, packings, intermediation), however, their value may change,

b) are in a specific phase of production prior to sale [work in progress, and semi-finished products] or which are processed and completed, and are in the process of sale (finished products),

c) are to be used for the production of products to be sold or during the provision of services (raw materials).

Inventories shall further include:

a) the tangible assets (tools, instruments, equipment, fittings, work clothing, uniforms, protective clothing) before put into use, and which serve the undertaking's activities for a period of less than one year,

b) animals for breeding and fattening and other livestock, which increase in size and weight in result of production (husbandry), irrespective of the duration for which the undertaking benefits from such animals.

Current assets - Inventories

- Receivables are the payment claims:
  - expressed in money,
  - arising lawfully from various supply, work, service and other contracts
  - which are related to
  - the supply of products and services,
  - the sale of securities signifying a creditor relationship and share certificates,
  - extension of loans,
  - advance payments,
  - including various other receivables,
  - which have already been performed by the company
  - and have been accepted and acknowledged by the other party,
  - and also claims awarded by final court decisions.

Current assets - Securities

- Securities purchased for investment purposes, as temporary, non-permanent investments,
- securities signifying a creditor relationship
- and investments in share certificates shall be shown as securities under current assets.

Current assets - Liquid assets

- Liquid assets include cash, electronic moneys and checks,
- and bank deposits

Liabilities

- In the balance sheet the undertaking's own funds, reserves, liabilities, and accrued expenses and deferred income shall be shown under liabilities.

Own Funds / Owner’s Equity

- That part of the capital :
  - which has been supplied/invested by the owner (shareholder) for the undertaking (Contributed Capital) ,
  - or which has been left by the owner (shareholder) with the undertaking (were not distributed to the owners) from the after-tax profit (Retained Earnings) . These can accumulate to a large sum over the years.
- Owner’s Equity is by definition the difference between the Assets of a company and its Liabilities.

Provisions

Shall be formed to the debit of pre-tax profit or loss - to the extent necessary - to cover payment liabilities towards third persons which:

- originate from past and current transactions and contracts: including in particular,
  - guarantee commitments defined in legal regulations,
  - payments of early retirement benefits and severance pay,
  - environmental protection obligations
- and which are likely or sure to be incurred by the balance sheet date,
- however, the amounts of such liabilities are not established by the balance sheet preparation date
- and the company has not provided the required cover for such in any other form.

Liabilities

- Are the acknowledged debts to be performed in money and arising from supply, work, service and other contracts
- which are related to supplies, services and the provision of money
- already performed by the supplier, company, service provider, creditor or the party extending a loan,
- and accepted and acknowledged by the company.

There are subordinated, long-term and short-term liabilities.

Subordinated liabilities

- Subordinated liabilities shall include all loans that were in fact provided to the undertaking,
- and where the relevant contract contains the lender's consent by which to permit the undertaking to use the loan to pay off its debts
- and to acknowledge that the installments to repay the loan are ranked one before last, preceding only the claims which are payable to the owners
- and that - in the event of liquidation or bankruptcy of the borrower - repayment is subordinated whereas to satisfy the other creditors first,
- furthermore, that the deadline of repayment of the loan is either unspecified or is adjusted to future events, however, the original term is set for five or more years and that the loan cannot repaid before the original maturity or before the date of cancellation stipulated in the contract.

Long Term Liabilities

- Long-term liabilities are, based on the contract concluded with the creditor, loans and credits received for a term of more than one year (including the issue of bonds), less repayments due within one year of the balance sheet date, including other long-term liabilities.

Short-term/Current liabilities

Short-term liabilities are loans and credits received for a term of one financial year or less,

- including, from long-term liabilities, installments repayable within one financial year from the balance sheet date.

Short-term liabilities, in general, include:

- advance payments received from customers,
- obligations from the purchase of goods and services from suppliers,
- bills payable,
- dividends,
- profit-sharing and the yields on interest-bearing securities,
- and other short-term liabilities.

Balance sheet …

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Σ Assets = Σ Liabilities

Thank you for your attention!