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工商管理精要系列 · 影印版

管理会计

(第二版)

MANAGEMENT ACCOUNTING

SECOND EDITION

莱斯利 · 查德维克 著

Leslie Chadwick

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《工商管理精要系列·影印版》

出　版　说　明

《工商管理精要系列·影印版》是中国人民大学出版社和西蒙与舒斯特国际出版公司继《工商管理经典译丛》之后，共同合作出版的一套大型工商管理精品影印丛书。

本丛书由欧洲著名管理学院和管理咨询公司的教授和专家撰写，它将90年代以来国际上工商管理各专业的最新研究成果，分门别类加以精练浓缩，由享誉世界的最大教育图书出版商 Prentice Hall 出版公司出版。每一本书都给出了该专业学生应掌握的理论框架和知识信息，并对该专业的核心问题和关键理论作了全面而精当的阐述。本丛书虽然篇幅不长，但内容充实，信息量大，语言精练，易于操作且系统性强。因此，自90年代初陆续出版以来，受到欧洲、北美及世界各地管理教育界和工商企业界读者的普遍欢迎，累计发行量已达数百万册，是当今国际工商管理方面最优秀的精品图书之一。

这套影印版的出版发行，旨在推动我国工商管理教育和 MBA 事业的发展，为广大师生和工商企业界读者，提供一套原汁原味反映国外管理科学研究成果的浓缩精品图书。有助于读者尽快提高专业外语水平，扩大知识面，掌握工商管理各专业的核心理论和管理技巧。

本丛书可作为管理院校的专业外语教材和各类企业的培训教材，对于那些接受短期培训的企业管理者、MBA学生，以及想迅

速了解工商管理各专业核心领域的师生来说，本丛书更是极具价值的藏书和参考资料。

为了能及时反映国际上工商管理的研究成果，中国人民大学出版社今后将与 Prentice Hall 出版公司同步出版本丛书的其他最新内容并更新版本，使中国读者能借助本丛书，跟踪了解国际管理科学发展的最新动态。

1997 年 8 月

Preface

Many of the managers and executives who attend short management accounting courses, and students involved with non-professional accountancy courses, frequently comment that:

- They don't want to become accountants.
- They have no desire to become expert in the number crunching side of accountancy.

However, they do all appear to have a good idea about what they are really looking for. I have been told on numerous occasions by managers and non-professional accountancy students that what they need to be able to do is the following:

- Acquire a good grasp of the terminology used.
- Acquire a working knowledge of the important principles and techniques.
- Understand how the figures which are produced have been arrived at, e.g. how the overhead cost of a product may be calculated.
- Know what information could be available to assist with decision making.
- Use the information which is generated.
- Know about the limitations of the information produced.
- Appreciate the way in which the information, systems and techniques may affect people, i.e. the behavioural aspects.

Changes to the Second Edition

It is against this background that the first edition was written. This second edition involved a full revision of the text, and aims at improving and updating existing material, examples and questions, and adding a little more material where appropriate. In particular, this edition includes an introductory chapter on activity-based costing (ABC) and more material on capital investment appraisal.

Readership

This book, one of the Prentice Hall Essence of Management series, has been especially written for managers and executives attending short courses, either for reading before or during the course. However, students undertaking business and management courses of a longer duration should also find the book helpful as pre-course reading or for reading during their course; e.g. it should be particularly useful for one-semester introductory level under-graduate degree courses and post-graduate courses such as the MBA.

Teaching and learning features

- Each chapter sets out the objectives which it is intended will have been achieved by the time the study of the chapter has been completed.
- The worked examples in the text, which illustrate management accounting techniques, take the reader through the process step by step.
- Integrated throughout the text are several self-assessment questions, with suggested answers given at the end of the text.
- The essence of the subject is provided in a comprehensive summary at the end of each chapter.
- Each chapter ends with some suggested further reading.

The author welcomes comments from users of this book which will be taken into account when a new edition is prepared, and would like to thank all those users who commented on the first edition.

Contents

1

Introduction to management accounting

Objectives

The principal aim of this chapter is to introduce you to the purpose and scope of management accounting. When you have completed this chapter you should be able to do the following:

- Appreciate why predetermined cost and management accounting systems are needed.
- Understand what is meant by elements of cost.
- Distinguish between direct and indirect costs, and fixed and variable costs.
- Appreciate the way in which management accounting can meet the needs of management.

The two cost and management accounting systems

Cost and management accounting systems can be divided into two, as shown in Figure 1.1. Historic costing looks back at past performance. However, it must be remembered that simply comparing current performance with past performance is not such a satisfactory way of controlling business activities.

Why not? Because it is hard to say whether or not past performance has been good, bad or indifferent.

However, management accounting tends to make extensive use of predetermined systems such as budgetary control and standard costing.

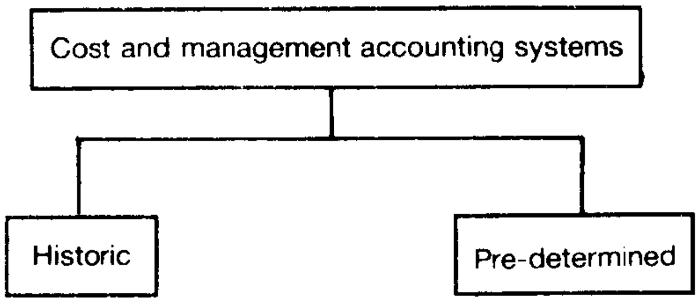

Figure 1.1 Cost and management accounting

Why? The principal reasons are as follows:

- A lot of the management accounting information produced is about the future. Management needs to be able to assess what its decisions/ proposed decisions will mean in terms of future costs and revenues, etc.
- The quest for a 'yardstick', i.e. a way of assessing and measuring performance, e.g. a sales target, budgeted expenditure on advertising, etc.

The budgets and standards used should provide targets at which to aim; they should *not* merely reflect what is expected to happen. Thus, control can be exercised by comparing the planned (budgets or standards) figures with the actual results at regular intervals.

Budgets and budgetary control are covered in Chapter 8 and standard costing is covered in Chapter 9.

The elements of cost

The cost of a product, job or service is made up of the elements of cost, i.e. materials, labour and overheads (see Figure 1.2). The last of the three (overheads) is the most difficult to deal with. Further on in this book we will take a look at all three elements. In addition to looking at the absorption (or total) costing method of dealing with overheads, we will also look at the marginal (variable) costing approach. Marginal costing is a technique which can be used for decision making purposes and is therefore an important area of study.

Figure 1.2 The elements of cost

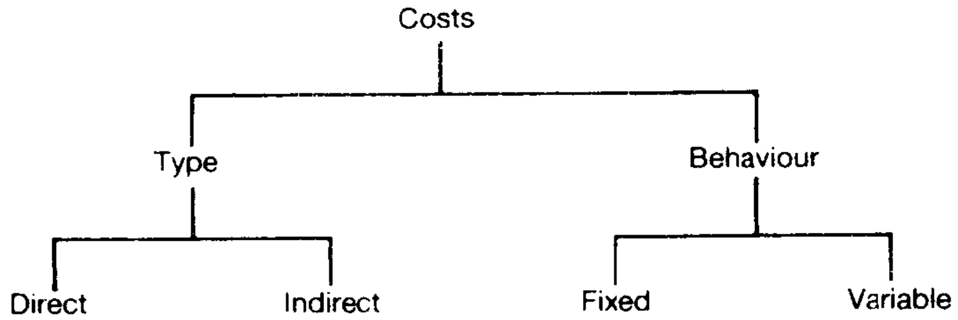

Figure 1.3 The classification of costs

The classification of costs

Costs can be classified in a number of ways (see Figure 1.3). This simplified classification looks at just two ways of classifying costs. You will come across these terms time and time again:

- **Direct costs** can be identified as forming part of the product or service, e.g. manufacturing wages and raw materials which are used in the production process.
- **Indirect costs** are usually referred to as **overheads**, they are expenses which do not form part of the product, e.g. the wages of cleaners and canteen staff, materials used for cleaning and maintenance.
- **Fixed costs** have to be paid out irrespective of the level of activity, but within a relevant range and also within the short term, e.g. a three monthly or six monthly period. Examples of fixed costs are insurance of buildings, rent of premises and maintenance contracts, etc.
- **Variable (marginal) costs** comprise the direct costs referred to above plus variable overheads. They may be described as those costs which vary with the level of activity within a relevant range. Examples of variable costs are direct labour and direct materials plus those expenses which vary with the level of output, e.g. power for machines.

A combination of fixed and variable costs may be referred to as a **semi-variable** cost, e.g. a fixed rental for some equipment plus a variable element charged according to usage.

Costs may be further divided up between products, services, departments, sections and functions. These may be referred to as **cost centres**. A cost centre is simply a location, person or function, etc., to which costs are allocated and apportioned. The aim is to collect and accumulate the costs applicable to each specific cost centre.

What is management accounting?

Management accounting is very closely linked to cost accounting; so closely, in fact, that it is difficult to say where cost accounting ends and where management accounting begins. **Cost accounting** simply aims to measure the performance of departments, goods and services. However, **management accounting** is much, much more, and involves the following.

The provision of information for management
Indeed, the role of the management accountant could well be described as that of an 'information manager'. The information generated should be designed to assist management, to control business operations, and to help management with decision making. In fulfilling this role the management accounting department/section must consult with the users of the information, i.e. management, to assess its needs in terms of precisely what information is required and when, etc. The aim is to provide management with a flow of relevant information, e.g. reports, statements, spreadsheets, etc., as and when required. A frequent flow of information (weekly or monthly) should enable management to respond to emerging problems/situations as soon as possible. The early detection of problems = earlier solutions/early action.

Advising management
A key part of management accounting is to advise management about the economic consequences and implications of its (proposed) decisions and alternative courses of action. In particular, this advice should answer a frequently overlooked question: What happens if things go wrong? or if interest rates go up? or if the sales target is not achieved?

Forecasting, planning and control
A lot of management accounting is concerned with the future and predetermined systems such as budgetary control and standard costing. Such systems investigate the differences (i.e. variances) which arise as a result of actual performance being different from planned performance in terms of budgets or standards. In addition, the management accountant should also be involved in strategic planning, e.g. the setting of objectives and the formulation of policy. The forecasting process will involve accounting for uncertainty (risk) via statistical techniques, such as probability, etc.

Communications
If the management accounting system is to be really effective it is essential that it goes hand in hand with a good, sound, reliable and efficient communication system. Such a system should communicate

clearly by providing information in a form which the user, i.e. managers and their subordinates, can easily understand (reports, statements, tabulations, graphs and charts). However, great care should be taken to ensure that managers do not suffer from 'information overload', i.e. having too much information much of which they could well do without!

Systems

The management accounting department/section will also be actively involved with the design of cost control systems and financial reporting systems.

Flexibility

Management accounting should be flexible enough to respond quickly to changes in the environment in which the company/organization operates. Where necessary information/systems should be amended/ modified. Thus, there is a need for the management accounting section/ department to be involved with the monitoring of the environment on a continuing basis.

An appreciation of other business functions

Those who provide management accounting information need to understand the role played by the other business functions. In addition to communicating effectively with other business functions, they may also need to secure their co-operation and co-ordination, e.g. the budget preparation process relies on the existence of good communications, co-operation and co-ordination.

Staff education

The management accounting department/section needs to ensure that all the users of the information it provides, e.g. managers and their subordinates, are educated about the techniques used, their purpose and their benefits, etc.

'Gate keeping'

The management accounting department/section sits at a very important information junction (see Figure 1.4). This gate-keeping position places the management accounting section in a position of power; it has access to (can send information to and from) management and subordinates, and communicates with and receives a certain amount of information from the external environment. Its power arises because it can control the flow of information upwards to management or downwards to subordinates.

Limitations

Although management accounting can, and does, provide a lot of useful information, it must be stressed that management accounting is *not* an

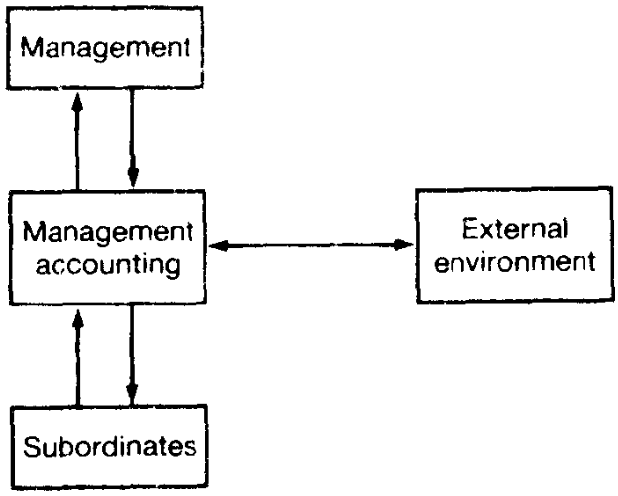

Figure 1.4 Management accounting: the gate keeper

exact science. A vast amount of the information generated depends upon subjective judgement, e.g. the assessment of qualitative factors or assumptions about the business environment. Management accounting is not the be all and end all of decision making, it is just one of the tools which can help management to make more informed decisions.

Being the servant

Finally, having established that management accounting is a tool, it must be emphasized that it is there to serve the needs of management.

Costs for decision making

The costs/revenues which need to be used for decision making purposes should be **relevant costs/revenues** (some authors refer to these as incremental costs/revenues).

Which costs and revenues are relevant to a decision? The short answer is only those costs and revenues which arise as a direct result of going ahead with the project under review. The following subsections should help you to understand which costs/revenues are relevant or irrelevant when assessing a project.

Sunk costs

Sunk costs are those costs which have already been paid out before the specific project under review was ever considered. For example, the cost of a machine purchased some time before the project was first thought of but