



Exam MA2

Managing Costs and Finance

Pocket Notes

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Contents

Chapter 1	Management information	1
Chapter 2	Maintaining an appropriate cost accounting system	9
Chapter 3	Cost classification and cost behaviour	15
Chapter 4	Costing of materials.....	23
Chapter 5	Materials inventory control	29
Chapter 6	Labour costs	39
Chapter 7	Other expenses	47
Chapter 8	Absorption costing.....	51
Chapter 9	Marginal costing and absorption costing.....	61
Chapter 10	Job costing and batch costing	65
Chapter 11	Process costing	69
Chapter 12	Service costing.....	79
Chapter 13	CVP analysis	83
Chapter 14	Decision making	89
Chapter 15	Discounted cash flow and capital expenditure appraisal	97
Chapter 16	The nature of cash and cash flows	109
Chapter 17	Cash management, investing and finance.....	117

Managing Costs and Finance (MA2)

Chapter 18	Cash budgets	131
Chapter 19	Information for comparison	137
Chapter 20	Reporting management information	149
Index	I.1

Preface

These Pocket Notes contain everything you need to know for the exam, presented in a unique visual way that makes revision easy and effective.

Written by experienced lecturers and authors, these Pocket Notes break down content into manageable chunks to maximise your concentration.

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chapter

1

Management information

In this chapter

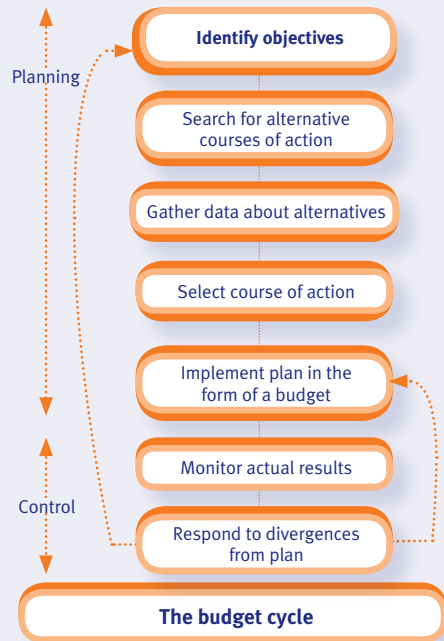
- Purpose of management information.
- Data and information.
- Qualities of useful management information.
- Sources of data for management accounting.
- Cost centres, profit centres and investment centres.
- IT and management accounting.

Management information

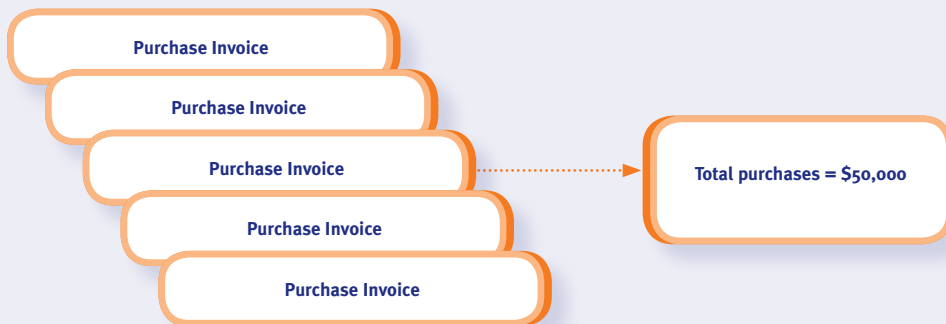
Purpose of management information

Planning is about making decisions about what should be done.

Control is about monitoring what is actually happening, and if anything seems to be going wrong, deciding what should be done to correct the problem.



Data and information



Definition

Data is a collection of unprocessed facts or opinions.

Managers need information not data. The cost accountant processes data about income and expenditures into meaningful figures about the costs of products, services and processes.

Definition

Information is data that has been processed so that it has a purpose and meaning.

Qualities of useful management information

- Purposeful
- Relevant
- Timely
- Accurate
- Complete
- Communicated properly
- Cost effective

Sources of data for management accounting

Data for preparing management information comes from a variety of sources, both within the organisation (internal sources) and from outside the organisation (external sources).

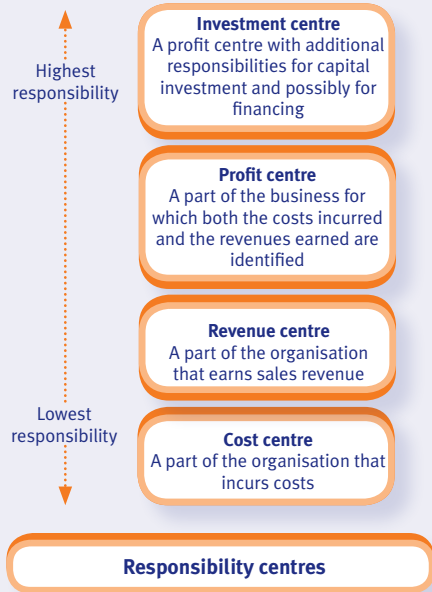


Cost centres, profit centres and investment centres

Definition

A **responsibility centre** is an individual part of a business whose manager has personal responsibility for its performance.

Responsibility centres can be defined and appraised in several different ways:



A manager in charge of a **cost or revenue centre** would be evaluated on his or her ability to meet **cost or revenue targets**.

The manager in charge of a **profit centre** is judged on the ability to meet or exceed **profit targets** and so must be authorised to manage both costs and revenues.

The manager in charge of an **investment centre** also has the responsibility for investment. He or she is judged on **return on capital employed (ROCE)**.

$$\text{ROCE} = \frac{\text{Profit}}{\text{Capital employed}}$$

In addition to ROCE, an investment centre manager may be judged on net profit margin and asset turnover.

$$\text{ROCE} = \text{Net profit margin} \times \text{Asset turnover}$$

IT and management accounting

IT has brought many advantages for providing management information:

- information can be gathered more easily and cheaply,
- much more information can be gathered and stored,
- information can be transmitted quickly via the internet,
- computers can process and interpret data more quickly, and
- there is a wide range of software which can simplify the entire process.