

Production and management accounting essay

[Business](#), [Company](#)



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Introduction

The accountant involved in management accounting requires more information than the traditional accountant. Previously in traditional accounting costs used to be allocated to the product based on the volume output. Companies have realised that they need more detailed and analytical accounting information in order to judge their performance over time well.

Management Accounting

In job costing, the management accountant is interested in the costs of the different “ jobs” that have been conducted throughout the production cycle of a good. Management accounting goes into specifics in order to provide management with information on which job is causing the production costs to be high.

In process costing, the management accountant is interested in knowing the production costs per unit of the goods produced. He needs to be given information on the total costs of production and the total units produced.

The accountant who works in a company that has implemented activity based costing will require the management to identify and list all the

activities that are carried out in the production process. The accountant then needs the cost of these activities based on different cost drivers. The activity costs are then allocated to the products which may be either goods or services. The activity costs will only be assigned to the products that demand these activities and in the respective proportion (Damitio, Hayes & Kintzele, 2000). The management accountant will realise that there are products that do not require a lot of special activities while there are those that have high activity costs.

Once the management accountant has the product costs he needs to evaluate the information he has received. There are activities that are termed as value adding however there are indirect activities that may need to be eliminated or minimised. This may result to the management accountant recommending that the staff in the indirect departments be transferred from their departments to the direct departments or new indirect departments that are closely tied to the organizational strategy (Asada, Bailes & Suzuki, 2000).

In lean accounting the management accountant will want to know the quantity of scrap or defective items. The costs of the raw materials, labour and other indirect costs will be calculated for the defective items. He will also be interested in the costs of quality. There are four types of costs of quality. There are the external failure costs. These occur after the customer has already received the company's goods and services. The company has to now process the company's complaints and the warranty claims. The customer may also prefer to return the product and take another one or be refunded.

There are internal failure costs which refer to the defects that are present in the product before the customer receives the product. The products may have to be reworked or downgraded to scrap. They may have to be re-inspected and reviewed again. Thirdly, there are the inspection costs incurred by the company that have to be carried out again to check how the products are conforming to the required product quality standards. Finally there are the prevention costs where the workers have to be educated and trained so as to improve the production processes. The management accountant is interested in all these activity costs and he required the management to provide it to him. He will then be able to monitor the costs over a period of time to see whether the company is on a path of continuous improvement.

Conclusion

Traditional costing is being replaced with management accounting techniques such as job costing, ABC costing and lean accounting. Activity based costing or process costing therefore leads to reduction of costs which goes to increase the profits of the company. Traditional accounting has been found not to be as value adding as management accounting.

Referenc

Asada, T., Bailes, J. & Suzuki, K.(2000). Implementing ABM with Hoshin Management

Management Accounting Quarterly. Winter, p1-6.

Damitio, J., Hayes, G. & Kintzele, P.(2000). Integrating ABC and ABM at Dow Chemical. Management Accounting Quarterly. Winter, p22-26.