

# Cost management essay sample

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



## **Abstract**

Competition has increased over the years due to globalization and improved access to information. Consequently, firms are constantly attempting to reduce cost, improve efficiency and increase demand to remain competitive. In this regard, many firms in this era have fully dedicated management and cost accountants who constantly look for ways to reduce running and production cost. One of the inventions meant to cut costs is the philosophy of lean accounting, which includes just in time (JIT) production and total quality management (TQM).

The aim of this paper is to suggest to Uptown clinic chief administrator on how she can reduce her budgeted cost by \$94, 000. Secondly this paper discusses the differences between managerial accounting and cost accounting. This paper also discusses the philosophy of lean production. Lastly, this paper compares the accounting principles in lean production to those of typical production.

## **Cost Management**

### **Introduction**

Uptown clinic chief administrator is anxious about reducing the following year's budget and the subsequent years in the foreseeable future. She intends to cut costs in the budget while increasing demand for the clinic's services at the same time. In order to effectively reduce costs, she must first spot costs that can be reduced or done away with without adversely impacting on operations of the clinic. Using the data provided from the

previous year, the dollar range of proposed costs reductions in her budget has been provided in the excel sheet.

### **Best case scenario**

The salaries of both the administrator and her assistant can be reduced by \$2, 000. One secretary can be laid off, since the administrator and her assistant can perform some of their secretarial work. The administrator can reduce the cost of supplies by taking advantage of quantity and cash discounts. Uptown clinic can source for other suppliers of accounting and billing, custodial, security and consulting services at lower costs without compromising on quality. This will reduce the cost of these services by accounting and billing by 4, 000 and the others by 2, 000. The salaries of the two social workers can be slashed by two thousand dollars each totaling to 4, 000 dollars. Lastly, the outpatient mental health treatment can do without one secretary. The remaining secretary can pick the work load of the one who will be laid off. This will cut costs by \$ 35, 000. The total reduction in costs will be \$94, 000.

### **Worst case scenario**

Uptown clinic can lay off the administration assistant and one secretary. The administrator and the remaining secretary will have to work extra hard since they have to pick the work load of the laid off staff. This will reduce costs by \$56, 000. The outpatient mental health treatment can do without one secretary. The remaining secretary can pick the work load of the one who will be laid off. This will cut costs by a further \$ 35, 000. The custodial and

consulting costs can be reduced by \$2, 000 and \$1, 000 respectively. This will result in a reduction of total costs by \$94, 000.

## **The differences between managerial accounting and cost accounting**

Managerial and cost accounting refer to the accounting methods that a firm's management uses to make important decisions and to determine the costs of running that particular business. Therefore, there is not much difference between these two terms.

Managerial accounting deals with the utilization of available cost accounting information in a firm to ensure that the managers make informed decisions concerning the firm's financial current situation and the market changes. In most cases, the decisions made look to ensure the smooth running of the company into the future.

Cost accounting deals with the maintenance of the production costs without interfering with the quality of the company's product. This is by deciding how much production should be produced- at the lowest cost possible- to ensure a pre-defined profit. This will entail processes, effectiveness and steps in the market will be put into an account through the double entry system.

## **The lean production philosophy**

Also called lean manufacturing, lean production deals with producing more with the least amount of resources like; space, money, labor, inventory, inventory and time. Therefore, lean production aims at ensuring fast production, simple procedures, and eliminating wastes. The main idea here is to ensure no overproduction, over-processing, waiting, transportation,

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inventory and defective units as well as ensuring customer pull and continuous flow.

Lean philosophy is based on the following areas; quality, delivery, cost, morale and safety. Lean production is ideal for firms whose inventories tend to accumulate in buffer stocks. The best example of a company that uses lean production is Toyota.

### **A comparison of the accounting principles in lean production to those of typical production**

The accounting principles used in lean production are in some way different from those used in typical production. However, there are also similarities between these two methods of production. Some of the differences between lean and typical accounting principles are discussed below.

Typical accounting practices do not apply in lean production because they are designed in a way to support mass production. They present a clear view of the firm to the public but not to assist the management in running the operations in a better way. First the nonfinancial measure like the scrap rates and deliveries on time which show big improvements in lean accounting operations are not recognized in GAAP financial statements. Net income also declines when firms switch to lean production due to the firm still using the deferred labor and existing inventory. Typically, companies allocate overhead costs to their products in equal proportion to direct labor which is not the case in lean accounting. Inventory is also not viewed as an asset in lean accounting, since it includes handling costs which reduces cash flows and also occupies space. Traditionally, inventory was treated as an

asset to match its costs against the revenues when the products are sold. But in lean operations, the main aim is to ensure that production meets the demand- this cuts down inventory significantly.

The calculations used to determine the value of the inventory are prone to errors due to quick technological changes. This may include bias by overvaluing inventory since you assume that it will all be sold. However in lean production, it is thought that the products stocked as inventory can become obsolete before being sold.

Also the columns of variances from standard labor rates, standard material use, standard cost and others that appear in typical financial statements make it very hard for nonfinancial people to understand or interpret. The proponents of lean accounting propose that rather than classifying costs by departments, it is better to organize the costs by value stream which includes all things done to create value for the customer that is reasonably linked to a product or product line such as; expenses incurred to engineer, design, sell, transport and market a product together with the costs of servicing the customer, collecting payments, and materials purchases.

## **References**

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