The managerial accounting

Profession, Manager

Writing reports is an essential function of a managerial accountant. A manager prepares a report to account for the utilization of funds in each cost object that gets carried out in that period. Allocation reports also show how acquired inputs will be put into use.

Cash flow statement.

A financial statement complements the financial position statement and the profit and loss account is referred to a cash flow statement. It records the amount of cash used in a certain cost object and the cash received. The statement aids the management to understand the organizations activities and operations. Management; therefore, can identify which activity to promote and which one to disregard.

Budget

The accounting department in any organization prepares a budget in order to allocate how much should be used in a certain activity and the expected revenue from that activity. Managements use budgets as a control measure to limit spending.

Categories of purpose and how information cost support them

Allocation of cost

Cost drivers are evaluated based on the costing method used. Costing information is used to enhance continuous projects. Those cost drivers that are contributing to the revenue generation increase and if possible, those that are not contributing reduced as much as possible.

Budget preparation

Cost information tells the budgeting officers about how much each activity can generate and how much it is going to spend.

Cost objects.

A cost object is a concept that is helpful in identifying and tracing costs. A cost object helps answer questions such as how much something cost. Sometimes that is a hard question, because costs are accumulated and allocated for different purposes. Thus, it is extremely crucial that the purpose (cost object) for, which the cost is being collected or aggregated, is specified. Some examples of cost objects are as follows: cost of products or services, cost incurred at responsibility centres, costs incurred in running an operation or activity and costs incurred for a contract. (Barry 2006).

Use of cost object in management accounting

Cost allocation.

Opportunity cost refers to that opportunity lost when an economic operation is undertaken instead of another. Such operations may be; consumption, purchase or even production and all types of firm operations intended to achieve the firm objectives. (Warren 2011).

A firm requires resources to achievve its set objectives. Cost must be incurred to be able to do all that. Decisions are made in such cases as fixing the prices, project evaluation, costing the products and the outsourcing operations. Several costs must be established for differing purposes. Each case is determined to facilitate a sound decision.

When a cost is incurred, it is reviewed and aggregated using an established classifying system. Cost that share something in common is accumulated together in a unit called cost pool. The cost pool is then reassigned according to their unique purposes; hence, they form cost objects. Like the entire list above, cost objects can be determined as an operation, product or even a service. Cost classified, as cost object are either indirect cost, which is a cost that cannot be traced directly to any specific product or services and direct cost, which represents the cost that is traceable to the product or service. For better decision making, the accountant assigning costs to the cost object must be neutral and without biases. Cost is said to be allocated when the direct and indirect costs have been identified.

Cost derivation

Cost is derived using historical cost or cost after depreciation (net book value). Historical cost is the value of an item when it was initially purchased. Net book value, on the other hand, is the cost after adjusting for tear and wear.