The business and its assocaiated costs

Literature

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I think it's necessary for me to do this course work because it will favour me in the nearest future and it's also going to help anyone that is going to look at the piece of work understand what Management Accounting is really all about.

In this course work I will be investigating the cement industry and the focus is on cement factory called Castle cement in the UK. It is a manufacturing company.

The cement industry is a relatively small but significant component of the U. K. economy, with annual shipments valued at around ï¿½8. 6 billion. In the U. K, 39 companies operate 118 cement plants. Worldwide, the UK ranks third in cement production, behind China the world's leading producer and India.

U. K. cement production is rather widely distributed. The largest company produces just over 13% of the industry total, and the top five companies collectively produce around 53%. Foreign companies now own approximately 81% of U. K. cement capacity, up from about 22% in 1980. Investments during the 80's by European companies, as well as Asian entities, were spurred by the favorable position of the U. K. pounds against foreign currencies.

There are two main groups of accountant who work for this organisation they are the Financial Accountant and the Management Accountant; these two accountants have a significant role to play in the company.

Management Accountant

This relates to the provision of appropriate information for decision-making, planning control, analysis and performance evaluation. It is apparent from an examination of literature that the distinction between cost accounting and management accounting is extremely vague with some writers referring to the decision making aspect in terms of terms are often used synonymously.

Financial Accountant

The role of the financial accountant in the cement industry requires that they match costs with revenues to calculate profit. Consequently any unsold finished goods stock or partly completed stock will not be included in the cost of goods sold, which is match against sales revenue during a given period.

In an organisation that produces a wide range of different product, it will be necessary, for stock valuation purpose, to charge the costs to each individual product.

Another role of the financial accountant is to allocate costs between costs of goods sold and internal and external profit reporting, provide relevant information to help mangers make better decisions and provide information for planning, control and performance.

Cement is one of the most natural pf all manufactured products because its raw materials come from the ground. Here I show you how it is made.

In very simple terms, you take a mixture of finely ground limestone or chalk, clay and sand and heat it almost to melting point in a large rotating Kiln. The cement clinker that emerges is then ground to a powder with about five per cent gypsum, added to control the setting of the end-product.

The manufacturing process depends on the moisture content of the raw materials. Chalk has high moisture content and chalk-based processes tend to be less energy efficient than based on hard limestone.

The description below show the structure process of manufacturing cement

Structure of manufacturing cement

1. Raw material storage

2. Grinding

3. Blending

4. Preheating / revaccination

5. Rotary kiln

6. Clinker storage

7. Additions (gypsum, fly ash, etc.)

8. Cement grinding

9. Bulk storage & loading

Most companies allocate overheads to product using a two-stage procedure. In the first stage overheads are assigned to cost centers, while the second stage allocates the cost accumulated in the cost center to products.

Each of the structural division acts as separate costs centre in the company

Cost Center is a responsibility center where manager are accountable for the expenses that are under there control. Normally cost centers consist of departments, but in some instances they consist of smaller segments such as groups of machines within a department.

All cost are controllable at some management level. For example, top management has authority to dispose of facilities and increase or decrease the number of managers employed. However, not all costs can be controlled at lower management levels, so that there is a need for cost to be classified into direct and indirect, fixed and variable, marginal, controllable and non-controllable categories in the performance report that the accountant prepares for each responsibility center.

If cost are not were not classified in this ways, it would be difficult to evaluate a manager's performances.

Direct cost;

They can be said to be cost that can be specifically identified with a product; they include direct labour and materials but in any situations direct labour may not vary in the short term with changes in the output.

Indirect cost;

These are the bits and pieces that are used in the business. They can also be materials that cannot be identified with any one product, because they are used for the benefit of all products rather than for any one specific product.

Fixed cost;

They are costs that remain constant over wide ranges of activities for a specified time period. Examples of fixed cost include depreciation of the factory building, supervisors' salaries and leasing charges for used by the sales force. Fixed cost is constant for all levels of activities.

Marginal cost;

In product/service costing, a marginal costing system emphasises the behavioural, rather than the functional, characteristics of costs. The focus is on separating costs into variable elements (where the cost per unit remains the same with total cost varying in proportion to activity) and fixed elements (where the total cost remains the same in each period regardless of the level of activity). Whilst this is not easily achieved with accuracy, and is an oversimplification of reality, marginal costing information can be very useful for short-term planning, control and decision-making, especially in a multi-product business.

A controllable cost

This can define as a cost that is reasonably subject to regulation with whose responsibility that cost is being identified. If this condition does not hold then clearly cost should be classified as non-controllable by manager of the responsibility center. However, such non-controllable cost may be controllable at a higher level of responsibility. The controllable cost can be classified into various important categories of expenses, and that the differences between the budgeted and actual result be emphasized. This difference is called the variance.