Difference between managerial accounting and cost accounting course work

Business, Employee

Managerial Accounting helps in the provision of important information that supports the internal management processes of an organization. In so doing, Managerial Accounting greatly helps the organization's management to achieve the set goals. This is realized through planning and control, and appropriate decision making. Both standard costing and budgeting techniques help in planning and control, while direct costing and capital budgeting, among other techniques, help in decision making. In general terms, Managerial Accounting is all about the methods and ideas that provide accounting information aimed at supporting directly the managerial roles in an organization.

On the other hand, cost accounting helps the managers in understanding the costs of running the organization or the business. To understand the running costs, one must know the manufacturing costs or the costs incurred when producing a given product. Cost accounting therefore, helps in determining the unit cost of each product that is produced under the costing system. It also helps in determining the cost of each job that is separately done under the job order costing system. In determining the unit cost of each product, various considerations are made. They include the cost of materials, labor, and other expenses such as production expenses, selling and distribution expenses, administration, research and development expenses.

Managerial Accounting and Cost Accounting work hand in hand. Managerial accounting goals cannot be achieved if cost accounting data is not available. Inaccurate data also hinders the achievement of the managerial accounting objectives.

The lean production philosophy

Lean production is majorly concerned with the improvement of efficiency in a production process. It involves the elimination of all the wasteful activities (activities that do not add value) in the production process. Such activities only increases the production cost; thus, their elimination leads to a reduction of the production cost and a remarkable increase in the production efficiency. The philosophy of lean production is all about perfection. According to the philosophy, everything cannot be done with perfection; however, if we aim at it and try to achieve it, then we can surely get great results. Perfection lowers the costs and improves the quality and efficiency, thus, it helps us produce high quality goods and services at lower costs. If the production cost is low, then the selling price must also be low. This is beneficial to both the organization and the public (customers).

For the elimination of the wasteful activities, one must know exactly which activity is considered as wasteful or non-value adding. Basically, a waste is anything, within the product lifecycle, that adds cost to the product without adding any value. Such activities include:

The repair of defective goods, which means that an additional work must be done; thus, raising the costs.

Production of items which are never needed by anybody else - this is also known as inventories' piling. When an organization produces goods which are not needed by anybody, then the goods are as good as waste and the cost of production of such goods increases the overall production cost and lowers the efficiency.

Production stages without products - Some production stages can be avoided especially if such a stage has no definite output. These stages are basically a repetition of other stages or processes within the system.

Time wastage by employees - In many cases, employees waste some time especially during the processing period. An accumulation of such wastes make the company or the organization to incur extra costs which cannot be accounted for. An example is that of an employee who wastes ten minutes in every one hour. If the labor is paid per hour, then the company wastes 17% on the employee per hour.

Discarded goods / substandard goods – The production of substandard goods is considered as waste. Such goods are not fit for consumption and are discarded. Spoilt goods are generally sold at very low prices, even lower that the production cost.

Unneeded movements of both goods and employees contribute to wastage of time. Such movements may result in duplication of work especially in the case of goods and should be avoided at all costs given that it raises the production cost.

Comparison of the accounting principles in lean production and those of typical production

The accounting principles of both the production types involves recording of the manufacturing cycle. In lean production, the accounting principles involve recording of the wastes or wasted activities at every stage within the production process. This helps in identifying the wastes and putting in measures that lead to perfection.

On the other hand, the manufacturing cycle in typical production is recorded with a lot of emphasis laid on the cost accumulation. This helps in determining the unit cost of each product. The accounting principles, in typical production, do not tell the level of waste or the wastage during the production process as opposed to those in lean production, whose main concern is the waste.

Advice to Dr. Stephanie White

Dr. White, as the Chief Administrator, must clearly define both the long-term and short-time goals of the Clinic. She should have the knowledge of lean production and use the philosophy of lean production. This would enable her minimize or completely eliminate the wastes, thus lowering the costs. If properly employed, the organization will be very competitive, and at the same time, benefit the customers and the general community. Being a community mental health agency, there is no needs for advertisements and promotions. This is indeed a waste. Other expenses, like those incurred during professional meetings, should be eliminated if they don't add any significant value to the organization.

In so doing, Dr. White shall have minimized the costs and maximized the efficiency. Below is an approximation of the reduction in cost.

Two secretaries earn $42, 000; each earning $21, 000 if they are paid equal amounts while the Assistant gets a salary of $35, 000. If both the secretaries are eliminated, then the organization shall minimize the costs by $42, 000; however, if one of the secretaries is removed together with the Assistant, then the costs shall be reduced by $56, 000. So, it's upon the administrator to evaluate the nature and importance the services offered by the above individuals and make an informed decision on whom to be eliminated.

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