MERDEKA BELAJAR

UAI
Universitas Al Azhar Indonesia

Lectures Note

COST ACCOUNTING

Chapter 1: Managerial Accounting

Sari Anggraini

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Fakultas Ekonomi dan Bisnis
Universitas Al-Azhar Indonesia
Jl. Sisingamangaraja Kebayoran Baru - Jakarta Selatan

Direktorat Pembelajaran dan Kemahasiswaan, Kementerian Pendidikan Kebudayaan, Riset dan Teknologi

Chapter I

Managerial Accounting

After studying this chapter, you should be able to:

1. ***Explain the distinguishing features of management accounting***
2. ***Explain the management accounting role***
3. ***Define of three classes of manufacturing cost***
4. ***Explain the differences between a merchandising and manufacturing company***
5. ***Explain the value chain analysis***

Study objectives of this chapter is to give you a framework for learning the specific concept of management accounting roles

Management Accounting, Financial Accounting, and Cost Accounting

Accounting systems take economic even and transactions, such as sales and material purchase, and process the data into information helpful to managers, sales representatives, production supervisors, and others. Processing any economic transaction means collecting, categorizing, summarizing, and analyzing. For example, costs are collected by category, such as materials, labor, and shipping. These cost then summarized to determine total costs by month, quarter, or year. The results are analyzed to evaluate, say, how cost has changed relative to revenues from one period to the next.

Management accounting and financial accounting have different goals. **Management accounting** is measures, analyzes, and report financial and non financial information that help manager make decisions to fulfill the goals of an organization. Managers use management accounting information to choose, communicate, and implement strategy. They also use management accounting information to coordinate product design, production, and marketing decisions. Management accounting focuses on internal reporting.[1]

Financial accounting focuses on reporting to external parties, such as investors, government agencies, bank, and suppliers. It measure and record business and provide financial statements that are based on generally accepted accounting principles (GAAP) whish we used to call *Standar Akuntansi Keuangan* (SAK) in Indonesia. The major differences between management accounting and financial accounting shown in exhibit 1-1 below:

Cost accounting provides information for management accounting and financial accounting. **Cost accounting** measure, analyzes, and report financial and non financial information relating to the costs of acquiring or using resources of an organization. For example, calculating the cost of a product is a cost accounting function that answers financial accounting's inventory – valuation needs and management accounting decision making needs (such as choosing product to offer). Modern cost accounting takes the perspective that collecting cost information is a function of the management decision being made. Thus, the distinction between management accounting and cost accounting is not so clear-cut, and we often use these terms interchangeably in the book.

Therefore, modern. cost accounting methods are focused on cost rationalization and cost reduction, since modern manufacturing companies cannot effect on market prices but can. effect on their costs

Management Accountant's Role in Implementing Strategy

Managers implement strategy by translating it into actions. In building action plans, managers seek input from customer and evaluate and assess how competitors will react. Creating value for customers is also an important part of planning and implementing strategy. Value is the usefulness a customer gains from a company's product or service.

	Management Accounting	Financial Accounting
Purpose of information	Help managers make decisions to fulfill an organization's goals	Communicate organization's financial position to investors, banks, regulators, and other outside parties
Primary users	Managers of the organization	External users such as investors, banks, regulators, and suppliers

Focus and emphasis	Future-oriented (budget for 2008 prepared in 2007)	Past-oriented (reports on 2007 performance prepared in 2008)
Rules of measurement and reporting	Internal measures and reports do not have to follow SAK but are based on cost-benefit analysis	Financial statements must be prepared in accordance with SAK and be certified by external, independent auditors
Time span and type of reports	Varies from hourly information to 15 to 20 years, with financial and non financial reports on products, departments, territories, and strategies	Annual and quarterly financial reports, primarily on the company as a whole
Behavioral implications	Designed to influence the behavior of managers and other employees	Primarily reports economic events but also influences behavior because manager's compensation is often based on reported financial results.

Exhibit 1-1: Major Differences between Management Accounting and Financial Accounting[3]

Value chain analysis refers to the sequence of business functions in which customer usefulness is added to product or service. We illustrate these business functions using SONY Corporation's television division.

1. Research and development – Generating and experimenting with ideas relates to new products, services, or processes.
2. Design of product, services, or processes – Detailed planning and engineering of products, services, or processes.
3. Production – Acquiring, coordinating, and assembling resources to produce a product or deliver a service.

4. Marketing – Promoting and selling products or services to customers or prospective customers.
5. Distribution – Delivering products or services to customers.
6. Customer service – Providing after-sale support to customers.

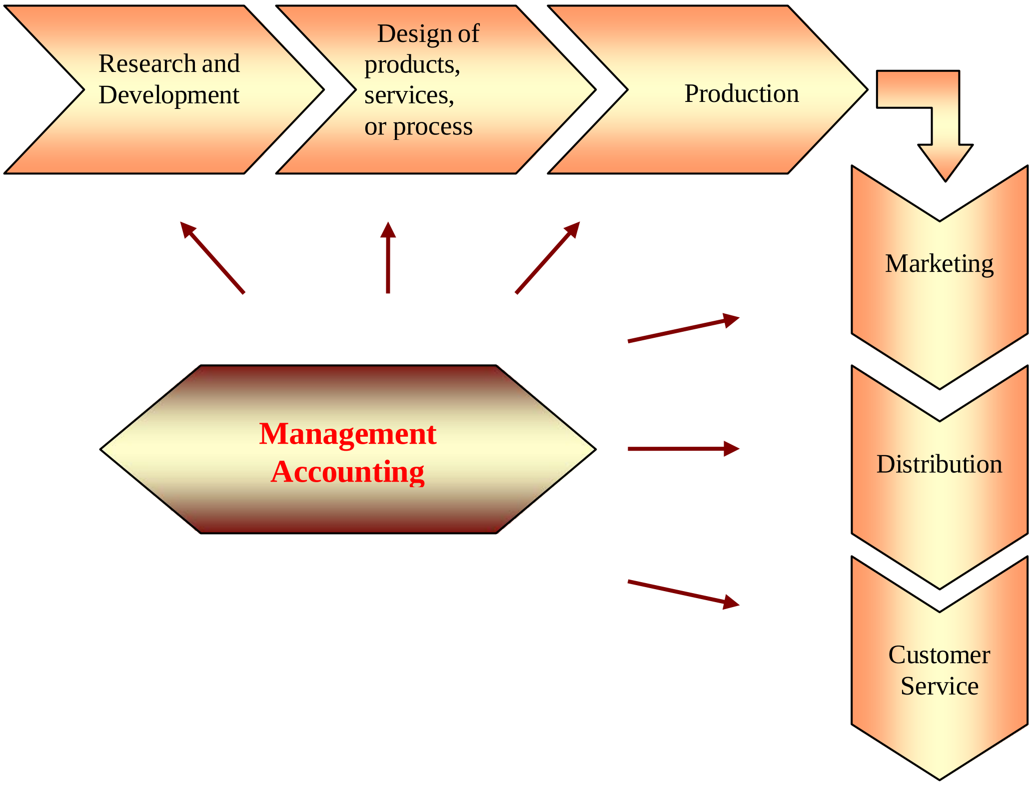

Exhibit 1-2: Managers in Different Part of the Value Chain

Exhibit 1-2 depicts the usual order in which different business-function activities physically occur. Companies gain (in terms of cost, quality, and the speed with which new products are developed) if two or more of the individual business functions of the value chain work concurrently as a team. For example, input into design decisions by production, marketing, distribution, and customer service managers often lead to design choices that reduce total costs of the company.

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