

Management Accountancy

Unit 15

Management Accounting Control System

Lecturer: Dr. Jeetendra Dangol

Contents

- Concept of Management Accounting Control System
- Technical Considerations of Management Accounting and Control System
- The Value Chain, Total Life Cycle Costing, Target Costing, Kaizen Costing and Benchmarking

Learning Objectives

- Understand the meaning of Management Accounting Control System
- Describe Technical Considerations of Management Accounting and Control System
- Describe the concept of: The Value Chain, Total Life Cycle Costing, Target Costing, Kaizen Costing and Benchmarking

Control

Control in MACS refers to set of procedures, tools, performance measures, system, and incentives that organizations use to guide and motivate all employees to achieve organizational objective

The purposes of MACS are as under:

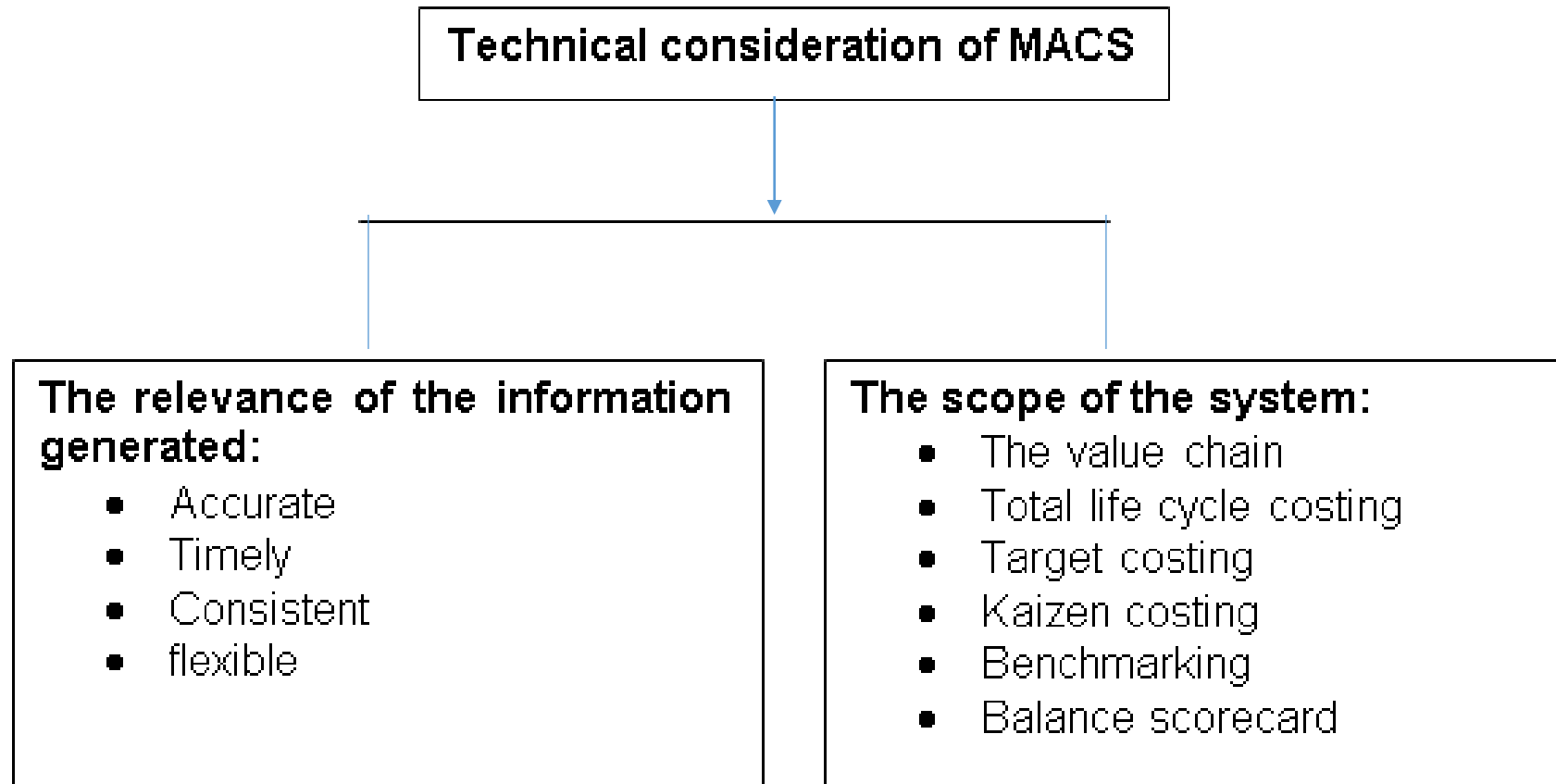
- Communicate the organization's goals/objectives managers and employees
- Ensure that every manager and employee understands the specific actions required to achieve organizational goals/objectives
- Communicates the results of actions across the organization
- Ensure that the management control system adjusts to changes in the working environments

MACS

Control consists four stages:

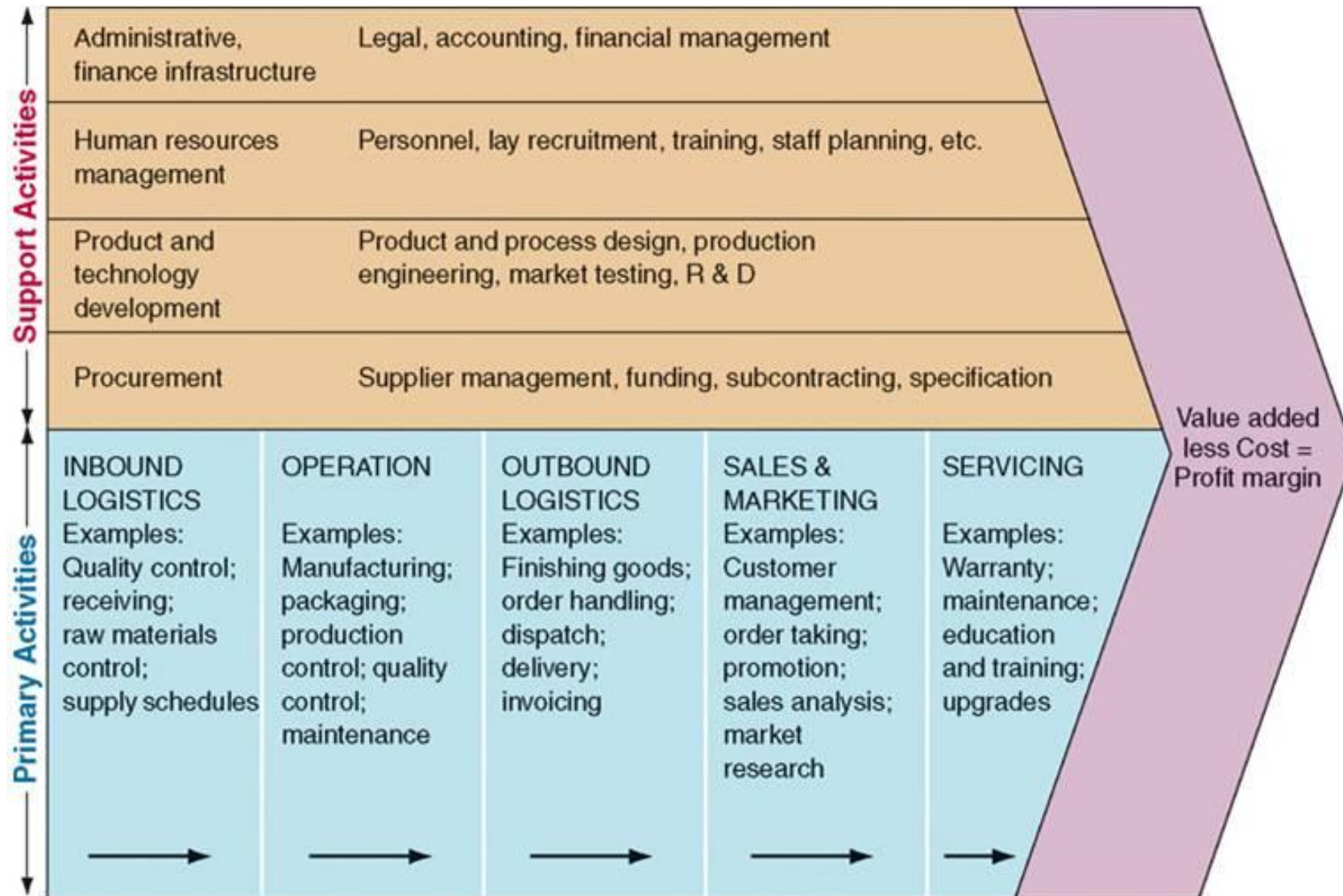
1. Plan—Develop an organization's objectives, choose activities to accomplish the objectives, and select measures to determine how well the objectives were met
2. Do—Implement the plan
3. Check—Monitor by measuring and evaluating the system's current level of performance; compare feedback about the system's current level of performance to the planned level in order to identify discrepancies and prescribe corrective action.
4. Act—Take appropriate actions to return the system to an in-control state

Technical Consideration of MACS



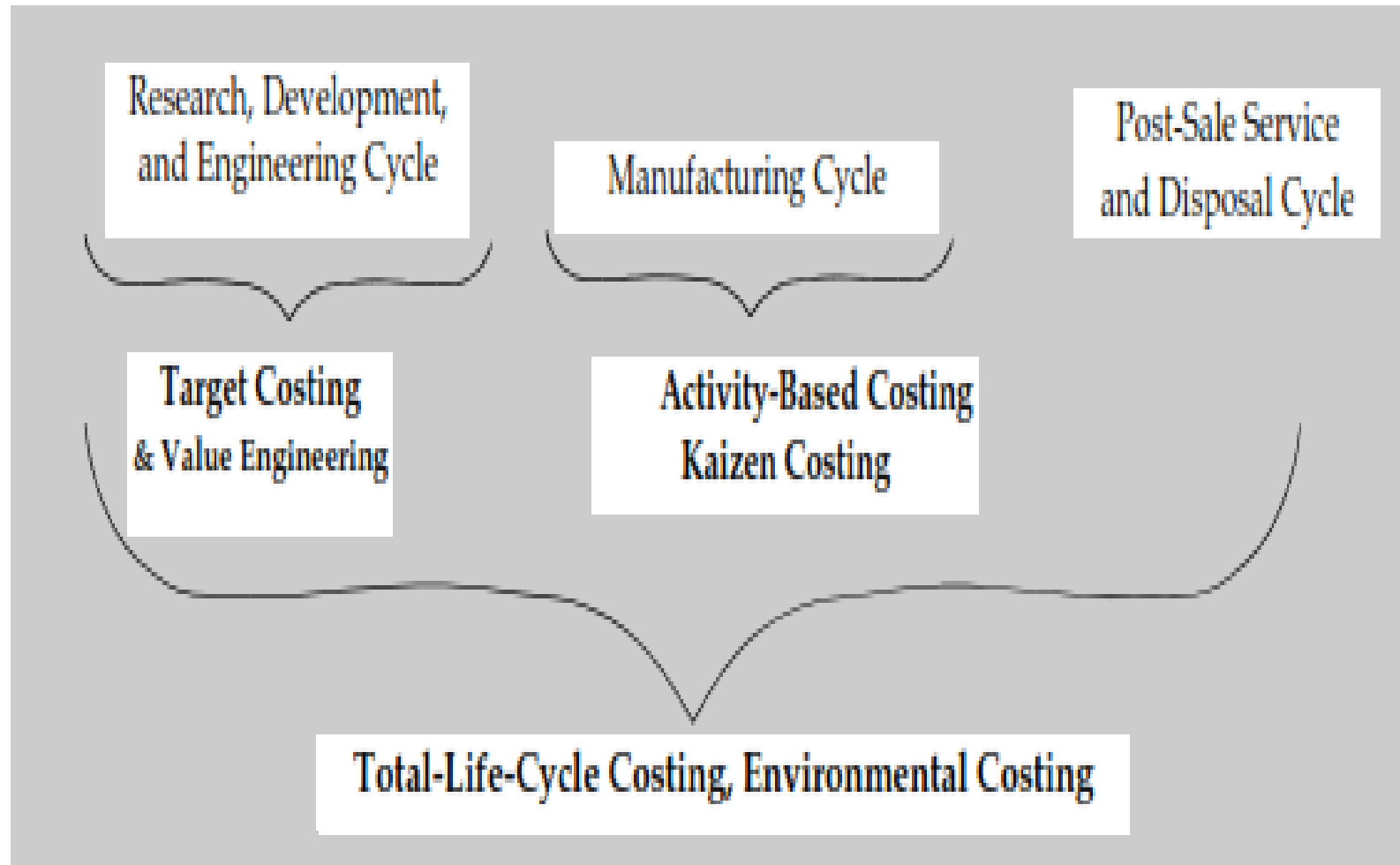
(Source: Dangol & Dangol, 2019)

The value chain



Source: Porter's value chain analysis (retrieved from Google images)

Total Life Cycle Costing



RD&E

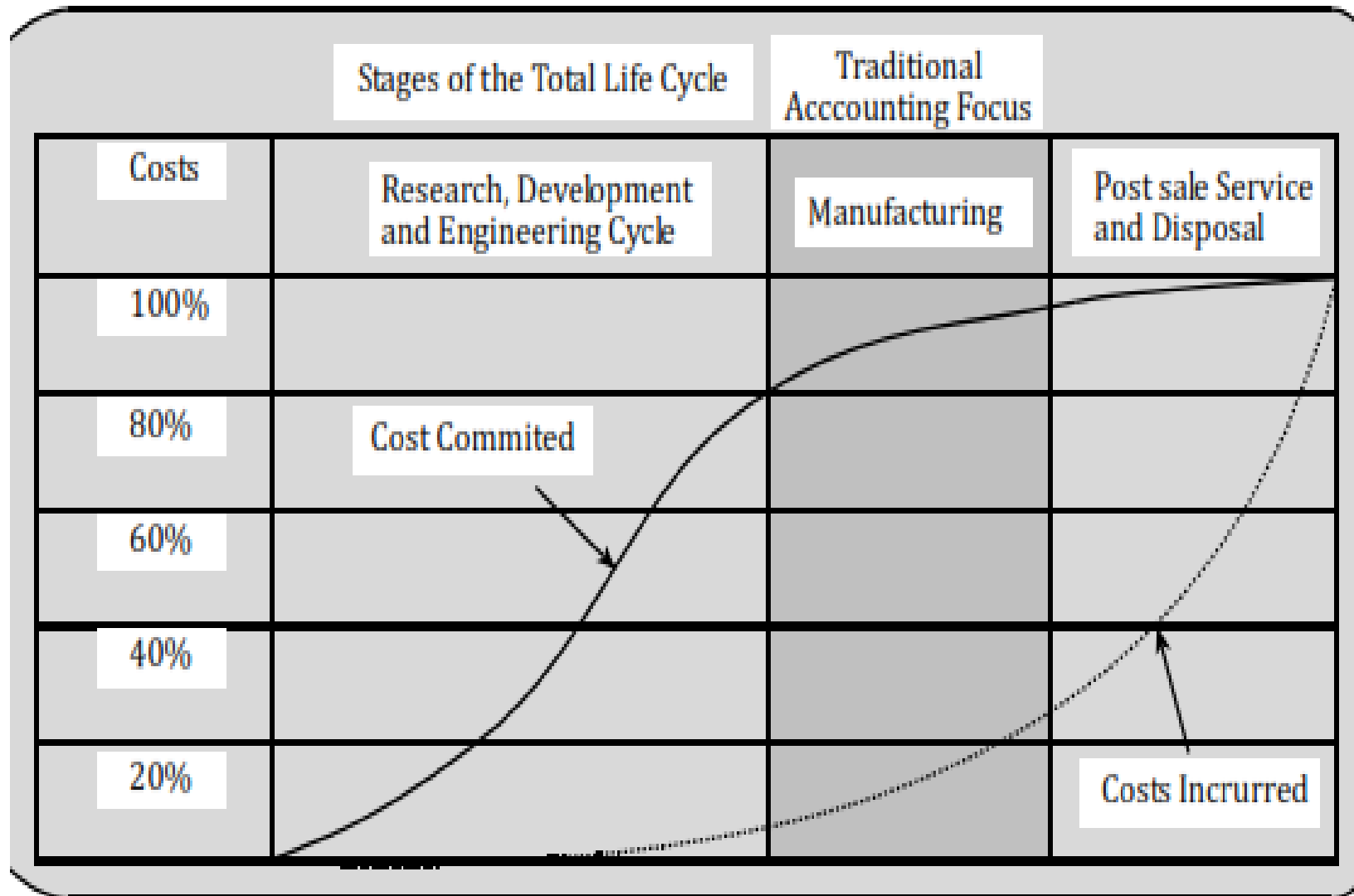
- Market research
- Product design
- Product development

Manufacturing stage

Post-sale service and disposal cycle

- Rapid growth
- Transition
- Maturity

Total Life Cycle Costing (Contd.)



Source: Dangol & Dangol (2019)

Target Costing and Target Pricing

Step 1: Target pricing

Step 2: Target cost

Step 3: If Target pricing $>$ Target cost, Launch the product, otherwise drop the idea

Kaizen Costing

Kai = Change

Zen = Good or Improvement



Source: Dangol & Dangol (2019)

Kaizen and Waste

Kaizen philosophy identifies 7 types of waste which have negative impact on company functioning and may generate additional cost



(Source: <http://www.daicelsse.com/kaizen,c63>).

Advantages Kaizen Costing

- Employees morale grows and teamwork increases
- Create a gentler approach to change
- Ensure improvements are encouraged both short and long-term

Disadvantages Kaizen Costing

- Increases the burden on lower level of management
- Difficult to changes cultural value to create a receptive environment

Differences between Kaizen Costing and Standard Costing

STANDARD COSTING CONCEPTS	KAIZEN COSTING CONCEPTS
Cost-control system concept	Cost-reduction system concept
Assumes stability in current manufacturing processes	Assumes continuous improvement in manufacturing
Goal is to meet cost performance standard	Goal is to achieve cost-reduction standard
STANDARD COSTING TECHNIQUES	KAIZEN COSTING TECHNIQUES
Standards are set annually or semi-annually	Cost reduction targets are set and applied monthly and continuous improvement (Kaizen) methods are applied all year long to meet targets
Cost variance analysis involves comparing actual to standard costs	Cost variance analysis involves target Kaizen costs versus actual cost reduction amounts
Cost variance investigation occurs when standards are not met	Investigation occurs when target cost reduction (Kaizen) amounts are not attained
WHO HAS THE BEST KNOWLEDGE TO REDUCE COSTS?	WHO HAS THE BEST KNOWLEDGE TO REDUCE COSTS?
Managers and engineers develop standards as they have the technical expertise	Workers are closest to the process and thus know best

Source: Atkinson et al. (2014)

Benchmarking

- Benchmarking is the measurement of an organization's internal processes and performance data and a comparison with those of related and comparable organizations.
- Atkinson et al. (2014) opined that benchmarking is a way for organizations to gather information regarding the best practices of other.
- It indicates the other company's best practices can be adopted to avoid mistakes and minimize the cost without effecting quality of product. Preferably, these comparisons are made with businesses from the same sector, but it is possible to use benchmarking between businesses from other sectors as well.

Benchmarking (Contd.)

- In these comparisons it mainly concerns the dimensions quality, time and costs of organizations that are about the same size and that more or less have the same outlet. In addition, it is about how certain features can be realized better, faster and cheaper.
- In other words, by studying companies with superior performance, breaking down what makes such superior performance possible, and then comparing those processes to how business operates, organization can implement changes that will yield significant improvements as well as help to reduce cost.

Step by Step Benchmarking

Benchmarking is a simple, five-step process are as follows:

- Choose a benchmark product, service or inner department
- Determine which best-in-class businesses you should benchmark against – which organizations you will compare your company
- Gather information about their inner results or metrics
- Compare the data from both organizations to identify gaps in your company's performance
- Adopt the processes and policies in place within the best-in-class performers

Key Benefits of Benchmarking

- Improve staff knowledge of price structures and inner procedures
- Encourage team building and collaboration in order to become more competitive
- Enhancing familiarity with important performance metrics and business-wide possibilities for enhancement

Types of Benchmarking

Internal benchmarking is a comparison of a business process to a similar process inside the organization to acquire the best internal business practices.

Competitive benchmarking is a direct competition-to-competitor comparison of a product, service, process, or method. This type of benchmarking helps to know the business itself and the competitive position in the industry;

Functional benchmarking is a comparison to similar or identical practices (e.g., the picking process for assembling customer orders, maintaining inventory controls of spare computer parts, logistics to move operational forces, etc.) within the same or similar functions outside the immediate industry.

Generic benchmarking widely conceptualizes unrelated business processes or features that can be practiced in the same or similar manner regardless of the sector. Generic implies without a brand. The focus is on being innovative and acquiring insight into outstanding job procedures rather than the company procedures of a specific organization or sector.

References

- Anthony, R.N., Hawkins, D.F. & Merchant, K.A. (2012). *Accounting: Text and cases*. The McGraw-Hill Companies
- Atkinson, A. A., Kaplan, R. S., Matsumura, E. M., Young, S. M., & Kumar, G. A. (2104). *Management accounting: Information for decision-making and strategy execution*. Pea\$on Education
- Colin, D. (1995). *Management and cost accounting*. ELBS, London
- Dangol, R. M. & Dangol, J. (2019). *Management accountancy*. Taleju Prakashan, Kathmandu
- Hilton. R. W. & Platt, D. E. (2014). *Managerial accounting: Creating value in a global business environment*. McGraw-Hill Education
- Horngren, C. T., Datar, G. F., Rajan, M. V., & Lttner, C. (2011). *Cost accounting: A managerial emphasis*. Pea\$on Education
- Horngren, C. T., Sundem, G. L., & Stratton, W. O. (1999). *Introduction to management accounting*. Prentice Hall India

Thank You