
Professional Issues: Management Accounting

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Overview

- The financial information you need to 'run' a company
- Accounts of what income and expenditure around particular projects or products
- Forecasts of what is likely to happen in the future
- Cost of Labour
- Overheads
- Budgeting
- Cashflows

Cost of Labour

- **Costs**

- Wage/Salary
- Tax — (UK National Insurance Contribution) — usually proportional to salary level e.g. 10%, can be much higher e.g. 60% in some countries
- Superannuation
- Medical insurance
- Total is the payroll cost (In Edinburgh University this is 1.21 times the salary cost)

- **Effort**

- 260 weekdays in the year — Deduct public holidays + annual leave + Sick Leave + Unproductive time (at least 40-50 days per year in the UK)
- Approx 210 days per year times 7 working hours per day = 1470 hours
- So someone earning £30k at UoE costs $(30K \times 1.21)/1470 = £24.69$ per hour

Overheads

- Consider a company producing tangible goods (e.g. computers) as well as the production staff that assemble the goods we might also have:
 - Premises costs — rent, heat, light, business rates,...
 - Management costs
 - Support staff costs (e.g. secretaries)
 - Vehicle costs running cost, depreciation,...
 - Advertising
 - Consumables — bandwidth, postage, paper, phones,...
 - Advertising/Marketing
 - Insurance
 - Professional Fees
- Issue is how to allocate overheads to goods — share equally, or make proportional to labour needed to manufacture?

Overheads in Universities

TRAC (Transparent Approach to Costing) dispensation default rates – for non-HEIs and for HEIs eligible for and applying dispensation	Indexed rate expressed as £ per staff FTE to be applied from April 2009
Indirect cost rate	£38,000
Laboratory estates rate	£11,100
Non-laboratory estates rate	£6,400

TRAC upper quartile rates for the sector	Indexed rate expressed as £ per staff FTE Based on 2007–08 data indexed for two years
Indirect cost rate	£41,200
Laboratory estates rate	£13,400
Non-laboratory estates rate	£7,300

Budgets

- Financial Plan of expected income and expenditure typically over a year
- Typical sections are:
 - Overhead Costs: premises costs, management costs, advertising,...
 - Operating Costs: cost of materials, labour costs, depreciation on plant,...
 - Income (typically from sales): estimated sales of different items at different costs
- Typically a budget should show a surplus over the year
- Budgets are often 'profiled' into monthly expectations of spend and income

Cashflow

- Monthly predictions of inflows and outflows of case over the forecasting period 6 or 12 months
- Calculate the net flow for each month (either negative or positive)
- Calculate the cumulative cashflow for each month in the period
- The cumulative cashflow can be used to predict the need for working capital
- There is a difference between budgets and cashflows, if we sell goods for £X to company Y then:
 - that counts as £X of income in the budget
 - if company Y does not pay the invoice for three months that will be reflected in the cashflow

Readings

Required Readings

- Textbook (Bott)
 - Chapter 7 on Management accounting
- Barbara Chivers, Project Management Overview, The Higher Education Academy, Subject Centre for Information and Computer Sciences, 2008.

Suggested Readings

[SAPM 2011 Lecture Notes and Readings on Project Management](#)

Activity 8

- Review the presentation on Investment Appraisal
- Look at the Investment Appraisal Activity description

Task: *“Your task is to present an argued case for one of the machines that the firm should invest in. You should use at least two appropriate methods of investment appraisal in your presentation and you should highlight the relative costs and benefits of each method. Advise the Board on other factors that will need to be considered in taking the decision in addition to the quantitative analysis given above.”*

- Discuss or question any relevant aspect in the course wiki