# Management Accounting

Source: Bott Chapter 7

informatics

# Summary

- 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 x 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 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.