

Management Accounting

Source: Bott Chapter 7



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 $(30K \times 1.21)/1470 = £24.69$ 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 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 EX of income in the budget
 - if company Y does not pay the invoice for three months that will be reflected in the cashflow.