



UNIT 13: MANAGING FINANCIAL PRINCIPLES AND TECHNIQUES

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- LO1 : BE ABLE TO APPLY COST CONCEPTS TO THE DECISION MAKING PROCESS

THE BASIC SYLLABUS



- 1. Be able to apply cost concepts to the decision making process.
- 2. Be able to apply forecasting techniques to obtain information for decision making.
- 3. Be able to participate in the budgetary process of an organisation.
- 4. Be able to recommend cost reduction and management processes for an organisation.
- 5. Be able to use financial appraisal techniques to make strategic investment decisions for an organisation.
- 6. Be able to interpret financial statements for planning and decision making.

Learning Objectives



- Be able to apply cost concepts to the decision-making process



- At the end of the class the students should be able to:-
- Propose improvements to the costing and pricing systems used by an organisation.

OVERVIEW



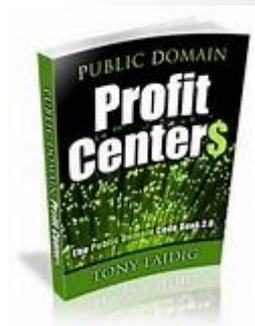
- Responsibility accounting is an underlying concept of accounting performance measurement systems. The basic idea is that large diversified organizations are difficult, if not impossible to manage as a single segment, thus they must be decentralized or separated into manageable parts. These parts, or segments are referred to as responsibility centers that include: 1) cost centers, 2) profit centers and 3) investment centers. This approach allows responsibility to be assigned to the segment managers that have the greatest amount of influence over the key elements to be managed.

Cost Centre



- A cost center is a division or part of an overall organization that creates costs for the company but not directly take part in generating a profit. A typical organization will have a number of cost centers that are essential to their business activities such as customer service, research and development, branding and marketing, etc. Cost centers are quite costly to maintain, and while they do result in the generation of profits in the long run, there is no direct profit generation. They are usually critical to the company's long term profits and financial health and, therefore, these cost centers are essential to the smooth running of the business. For example, a company that maintains a cost center will not obtain a direct profit from it. However, having good customer service facilities will increase customer satisfaction and will improve the reputation of the firm which can greatly influence sales.

PROFIT CENTRE



- Profit centers are departments, sections, or parts of companies that are responsible for creating profits. Certain profit centers account for a large percentage of the company's overall income and may even be one of the most important departments or divisions of the firm. The profits that are created by the profit centers will be used to cover costs, to finance cost centers, to invest, develop and expand into new business ventures. One of the main profit centers of a company is their sales division, which is responsible for a large portion of the company's revenue. Profit centers operate with the aim of making profits and, therefore, profit centers require aggressive management techniques to keep costs controlled.

INVESTMENT CENTRES



- The definition of an investment center is a business unit within an entity that has responsibility for its own revenue, expenses, and assets, and whose financial results are based on all three factors. A business unit is considered to be any aspect of a business that can be segregated for reporting purposes as a separate operating entity. An investment center typically has its own financial statements, comprised of at least an income statement and balance sheet.

ACCOUNTABLE MANAGEMENT



- One of the most elusive concepts in management is accountability. In leadership roles, accountability is the acknowledgment and assumption of responsibility for actions within the scope of a role or position, encompassing the obligation to report, and be answerable for resulting consequences. So what does this really mean? A senior manager cannot delegate responsibility, he can only delegate authority to a subordinate and then hold that subordinate accountable for due performance. One of the biggest mistakes managers can make is to continuously frustrate their employees by not holding them accountable. Believe it or not, it can frustrate your employees as much as it does you. Accountability is the key to achieving results and helping identify the opportunities in your organization. Holding employees accountable helps them to know the satisfaction of achieving a goal and performing to a standard.

PLANNING AND CONTROL METHODS



- Strategic planning relies on a number of methods and tools to define and interpret information for comparing alternatives. Selected planning methods according to four purposes are describe below:
- 1. Methods to clarify issues and problems. - All planning teams need creativity and analytical rigor to define problems and compare options. Several structured techniques promote both creativity and rigor.
- 2. Methods to examine spatial and inter-sectoral relationships. For example - Strategic planning for forests has to account for cross-cutting functional and spatial relationships. The methods for this rely on maps and area planning, together with computer simulations and models in regional economic geography.

PLANNING AND CONTROL METHODS



- 3. Methods for social, environmental, and economic analysis.
 - The planning team needs to anticipate the social, environmental, and economic impacts of its proposed goals and strategies. Several frameworks are available for this.
- 4. Methods to discuss the future. - Planning is about forecasting the future and deciding how to prepare for it. The planning team should practice and learn from techniques of "futures analysis."

PLANNING AND CONTROL METHODS



- Management can implement controls before an activity commences, while the activity is going on, or after the activity has been completed. The three respective types of control based on timing are feedforward, concurrent, and feedback.
- **Feedforward control** focuses on the regulation of inputs (human, material, and financial resources that flow into the organization) to ensure that they meet the standards necessary for the transformation process.
- **Concurrent control** takes place while an activity is in progress. It involves the regulation of ongoing activities that are part of transformation process to ensure that they conform to organizational standards. Concurrent control is designed to ensure that employee work activities produce the correct results.

PLANNING AND CONTROL METHODS



- This type of control focuses on the outputs of the organization after transformation is complete. Sometimes called postaction or output control, fulfils a number of important functions. For one thing, it often is used when feedforward and concurrent controls are not feasible or are too costly

PLANNING AND CONTROL METHODS



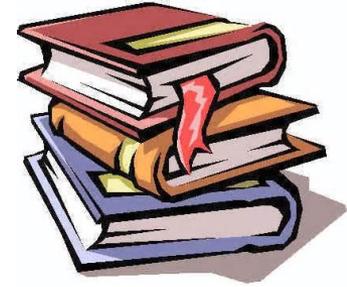
- Management can implement controls before an activity commences, while the activity is going on, or after the activity has been completed. The three respective types of control based on timing are feedforward, concurrent, and feedback.
- **Feedforward controls** are desirable because they allow management to prevent problems rather than having to cure them later. Unfortunately, these control require timely and accurate information that is often difficult to develop. Feedforward control also is sometimes called preliminary control, precontrol, preventive control, or steering control.
- **Concurrent control** sometimes is called screening or yes-no control, because it often involves checkpoints at which determinations are made about whether to continue progress, take corrective action, or stop work altogether on products or services.

PLANNING AND CONTROL METHODS



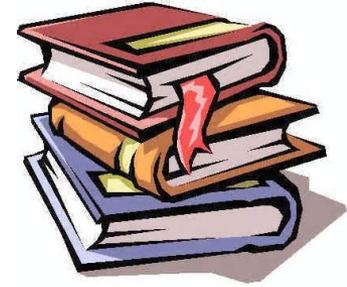
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