

Running Head: MGMT 311 ASSIGNMENT 2

MANAGERIAL ACCOUNTING: ASSIGNMENT 2

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ABSTRACT

The success of any organization is a function of the actions taken and decisions made by the management. The paper represents a classic problem that organizational hierarchy face on regular basis, making decisions that to reduce costs and increase profits. There are five main decision making models a manager can use, but unfortunately the approaches cannot be used simultaneously. The garbage can model, the collaborative model, the organizational process model, strategic models, and the rational model are the only ones the manager has to choose one from. The rational model has been elected to solve the problem stated.

BSE Veterinary Services is a laboratory that specializes in conducting infection-diagnosis tests on cattle and now they are faced with a decision-making problem. Presently, the laboratory undertakes 12,000 tests each period. The demand is; however, projected to reach 18,000 tests per period due to difficulties with the beef herd. The increase of demand requires an excess shift to be worked. The work of the manager is to prepare profit statements for 12,000 tests and 18,000 tests to see which set of tests would generate more profit for BSE Veterinary Services.

Financial calculation revealed that conducting 18,000 tests on the cattle instead of 12,000 tests would increase the profits by £482,000. A careful review of the five decision making models favored the choice of the rational model. The rational model relies on data and facts and the ability of the manager to distinguish the chosen model from the alternatives. It was later established that the rational model was the most suitable among all.

Introduction

In managerial accounting, the management is faced with prospect of understanding and controlling costs, making important product decisions, coordinating resources, and guiding and motivating employees. In that regard, managerial accounting plays a vital role in providing information frameworks to plan, assess, and report proprietary data; therein, helping the organization to attain its objectives (Walker, 2006).

The departmentalization of organizational responsibilities has left managers with the toughest task of guaranteeing desirable business prospects and it is for the same reason that proper decision making tools have to be put into full utility. It is; therefore, the manager's moral conviction to acknowledge that all decisions made on behalf of the organization have monetary repercussions ("Managerial Accounting: Tools for Decision Making. Chapter1")

Financial accounting and managerial accounting are distinguishable, so there should be zero space for confusion. Financial accounting is all about balancing books and writing financial reports, whereas managerial accounting is responsible for all financial decisions made.

The success of any organization, for-profit or not-for-profit, the management must have enough knowledge about costs and that is why cost accounting system to ascertain the cost of goods produced becomes a necessity ("Managerial Accounting: Tools for Decision Making. Chapter1").

Managerial Accounting Tools

These are the elements that affect organizational running costs. The management uses the financial statistics of the organization to make decisions. Care must be taken a simple decision error can bring the company to its knees (“Managerial Accounting: Tools for Decision Making. Chapter1”).

Accounting In A Nutshell offers different decision making models; strategic models, the collaborative model, the rational model, garbage can model, and the organizational process model. Financial technique and knowledge are mandatory before a manager makes a decision.

As a virtual managerial accountant, I am supposed to choose an appropriate decision making model that is beneficial to the organization. However, financial evaluation of various factors is essential. Here the tool used is profit statement. I am to determine the profit statements of two different scenarios and use the information to make the right decision. The study of organizational behavior patterns makes it possible for the management to have a clear overview of the options available. The paper is not supposed to include any computations, but for continuity and logical purposes, the question and answer have been added to create a better understanding of the problem at hand. The situation is further elaborated in the fashion of a question as follows:

SELF QUESTION NUMBER 4 from Accounting in a Nutshell

BSE Veterinary Service is a specialist laboratory carrying out test on cattle to ascertain whether the cattle have any infection. At present, the laboratory carries out 12,000 tests each period but, because of current difficulties with the beef herd, demand is expected to increase to 18,000 tests a period. This would require an additional shift to be worked.

The current cost of carrying out a full test is.

Material	115	per Test
Technicians wages	31	
Variable overheads	12	
Fixed Overhead	50	

Working the additional shift would

1. Require a shift premium of 50 percent to be paid to the technicians on the additional shift
2. Enable a quantity discount of 20 percent to be obtained for all materials if an order was placed to cover 18,000 test
3. Increase fixed cost by \$700,000 per period

The current fee per test 300

Required

1. Prepare a profit statement for the current 12,000 test capacity
2. Prepare a profit statement if the additional shift was worked and 18, 000 tests were carried out
3. Comment on three other factors which should be taken before any decisions are made

What decision making model would you use to make this decision.

1. Profit Statement for 12,000 Tests.

	£ per test	£'000	£'000
Sales Revenue	300		3,600
Materials	115	1,380	
Technician's Wages	30	360	
Variable Overhead	12	<u>144</u>	
			1,884
Contribution			1,716
Fixed Overhead	50		<u>600</u>
Profit			1,116

2. Profit Statement for 18,000 Tests

	No of tests	£ per test	£'000	£'000
Sales Revenue	18,000	300		5,400
Materials	18,000	92	1,656	
Technician's Wages	12,000	30	360	
	6,000	45	270	
Variable Overhead	18,000	12	216	
				<u>2,502</u>
Contribution				2,898
Fixed Costs				<u>1,300</u>
Profit				1,598

NB:

Calculations:

- (a) Material cost per test = $\pounds 115 \times 80\% = \pounds 92$
- (b) Wages cost per test for second shift = $\pounds 30 \times 150\% = \pounds 45$
- (c) Fixed costs for 12,000 test capacity = $\pounds 600,000$

Increase for additional 6,000 tests = $\pounds 700,000$

Fixed costs for test capacity = $\pounds 1,300,000$

Choice of Decision Making Model: The Rational Model

The rational model is the most appropriate in cost cutting and profitability related situations like the one above. The rational model is multi-stage in nature, where the decider starts by identifying the problem and developing solution for it. In the end, a logic-based decision is made (Walker, 2006).

The Concept of the Rational Model

The rational decision making model is based on facts and actual figures. The manager uses the available data to evaluate the economic and objective feasibility of the decision to be made. The rational model has the following characteristics: (1) does not depend on subjectivity and intuition, but prefers objective data and a formal analytical process; (2) presumes the decider has perfect information about alternatives (in this case, alternatives are the garbage can model, the collaborative model, the organizational process model, strategic models, and the rational model); (3) presumes that the management make decisions that minimize expenses and maximize profits, and (4) assumes that resources, skills, experience and time are available in plenty to come up with choices that benefit the organization (Walker, 2006).

Here the manager must decide whether to conduct 12,000 tests or 18,000 tests, with profit optimization the main organizational goal. There is enough data on and knowledge about the problems; therefore, the evaluation process has been done with precision and optimism. Since everything has been done on the calculation section, there is no need or restating the problem and instead looking at the end result is what matters the most (Walker, 2006).

If 12,000 tests were done, the profit would have been £1,116,000. Doing 18,000 tests in shifts is a better option since the profit generated is £1,598,000. The final figures from the profit statements (£1,116,000 and £1,598,000) indicate that the organization would make an additional profit of £482,000 if 18,000 tests were conducted.

The other models are good, but not suitable for this problem. The organizational process model and the collaborative model have a cost and time disadvantage. The problem was small and could have a one-man solution. The garbage can model is complex as many problems, solutions and alternatives are put in one basket and analyzed one at a time. The strategic model is effective in competition battles and not profitability. However, realizing more profits can influence the organization to lower its cost of products and services to increase its market share penetrability index. This attracts more customers, so sales may go through the roof (“Management Accounting and Decision-Making. Chapter 2”).

Conclusion

In managerial accounting, the management is faced with prospect of understanding and controlling costs, making important product decisions, coordinating resources, and guiding and motivating employees. The rational model is my first and last choice. Using the model is economical as it can be done by one person. Involving a large team in making small decisions wastes time and resources that can be used somewhere else more constructively (“Managerial Accounting: Tools for Decision Making. Chapter1”). All processes involved in using the rational model have been executed; that is goal formulation, identification of decision making criteria, identification of alternatives, and performance of analysis and making the final decision. The hypothesis used here is that conducting 18,000 rather than 12,000 tests yields the company additional £482,000 in profits. Profit maximization is the primary goal of any organization and managers are rated according to the output of their decisions.

References

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